State of Arizona

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1999

Jane Dee Hull
Governor

Prepared by:

Arizona Department of Administration
Financial Services Division
General Accounting Office

ARIZONA'S CAPITOL BUILDING

The Arizona Capitol building was constructed in 1899 on property donated to the Arizona Territory. In 1891, work began to develop the site as a park and included planting of trees, lawns and the construction of irrigation systems and paths. A horse-drawn streetcar on rails was constructed through the middle of the property and later was rerouted to the north when work on the building finally began in 1899. Some years later, after the streetcar was electrical and the Capitol building was completed, electrical power from the streetcar lines was used to power the elevator in the Capitol.

Design and construction of the Territorial Capitol occurred at the turn of the century. Texas architect James Riely Gordon who specialized in public buildings accepted the challenge to design a suitable capitol building for the Territory at a cost of $100,000. After the Gordon design was approved, the Capitol Site Commissioners decided to replace all the major support trusses with iron to improve the fire proofing of the new capitol and received an additional appropriation of $30,000 from the Territorial Assembly. Completion of the building including purchase of an elevator, light fixtures, floor coverings and some office furnishings for senior officials brought the total cost to $135,744.29. Official dedication ceremonies were conducted in 1901 and the building served as the Territorial Capitol until Arizona became the 48th state in 1912. It continued as the State Capitol until the Legislature moved into new buildings in 1960 followed by the Governor and the Supreme Court in 1974.

Initial restoration and adaptation of the old Capitol building as a museum started in the mid 1970's. A second round of restoration, or more accurately rehabilitation, started in 1998 to prepare the structure for its centennial in 2001. Additionally, work was needed to complete the adaptation of the structure for use as a museum and considerable repairs were needed because of deferred maintenance. The exterior required repairs to the roof and dome, stone work, window repairs and the reinstallation of the awnings that were installed in 1901 to help cool the building. Improvements include upgrading environmental stabilization equipment, adding new lighting, increased electrical service, installing new security systems and a fire sprinkler system with associated plaster, paint and woodwork repairs. Total costs are expected to be $4,700,000.

The Capitol Museum occupies the entire building with exhibits on territorial and state government history and functions. Operating hours are 8:00 A.M. to 5:00 P.M. Monday through Friday, 10:00 A.M. to 3:00

P.M. on Saturdays during the Legislative session from January through May. Programs include tours, lecture series, a gift shop and special events such as State Hood Day on February 14. Admission is free. Guided tours can be scheduled and additional information acquired by calling (602) 542-4581 or e-mail at <capmus.dlapr.lib.az.us>.

Cover photograph

Arizona State Capitol Building prior to restoration.

STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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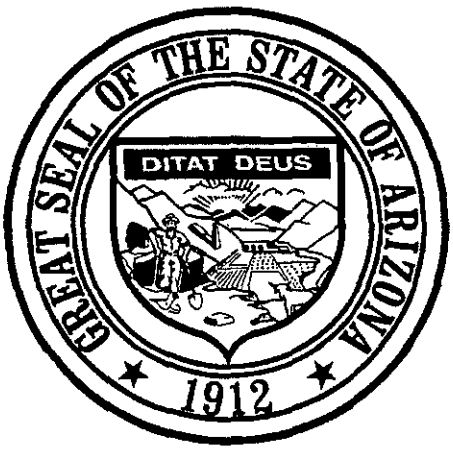
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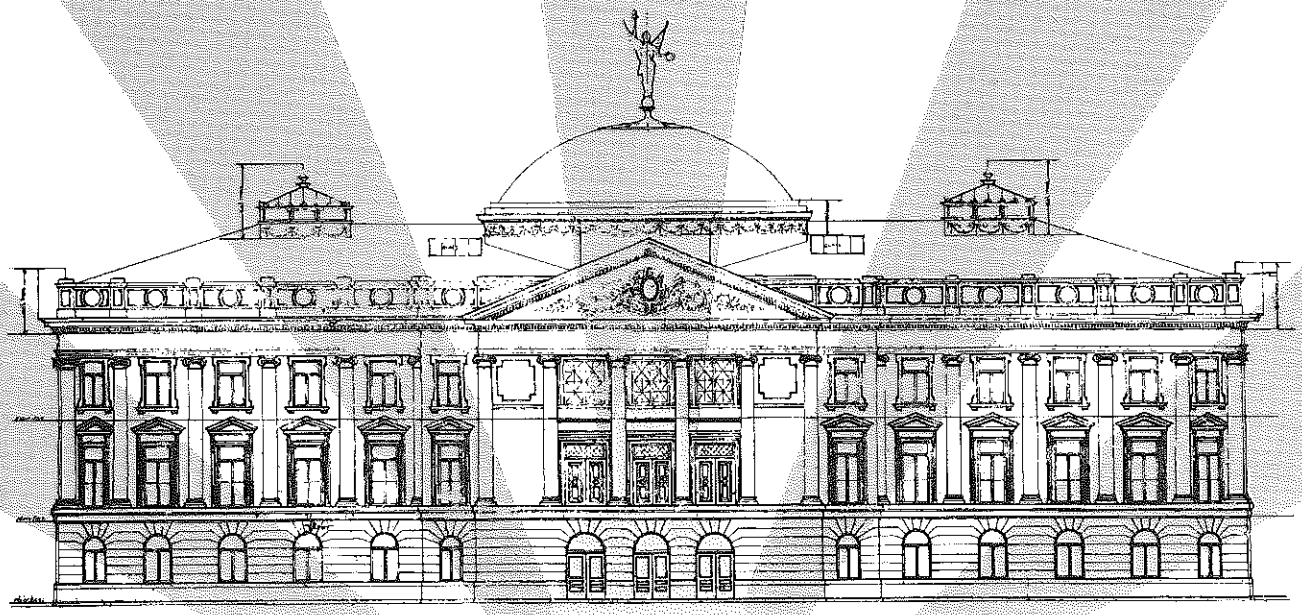
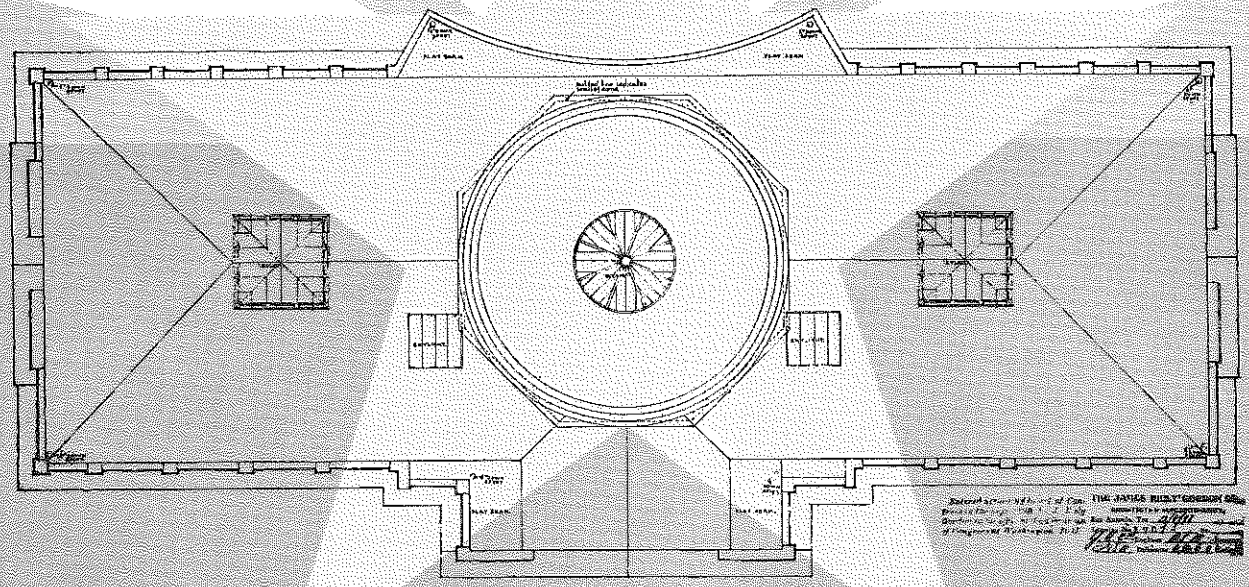
DITAT DEUS
1912



EAST ELEVATION.
SCALE 1/8"=1'-0"



ROOF PLAN
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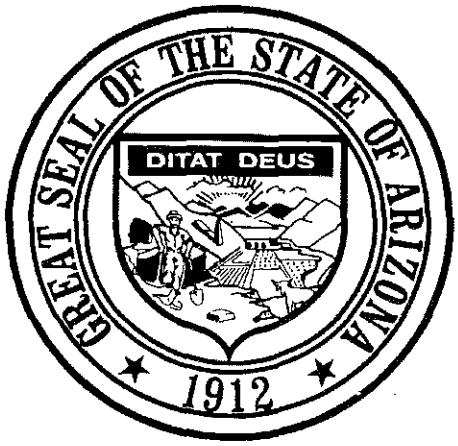
Introductory Section



In 1898, the Territory of Arizona conducted a competition for design of a Territorial Capitol building. Citizens in the Territory were convinced that construction of a capitol building would help convince Congress and the President to make Arizona a state. Architect James Reily Gordon of San Antonio, Texas won the $2,500 prize with this design for the Arizona Territory Capitol that was constructed in 1899 and 1900.

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

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December 10, 1999

The Honorable Jane Dee Hull
Governor of the State of Arizona,
Members of the Legislature, Chief Justice of
the Supreme Court and Citizens and Taxpayers
of the State of Arizona

Ladies and Gentlemen:

In accordance with Section §35-131 of the Arizona Revised Statutes (ARS), it is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arizona for the fiscal year ended June 30, 1999. Responsibility for the accuracy of data, completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, are accurate in all material respects and are reported in a manner which fairly presents the financial position and results of operations of the various funds and account groups of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

The report is presented in three sections: Introductory, Financial and Statistical.

- The **Introductory Section** includes this Letter of Transmittal, Financial Highlights, the State's organizational chart and a list of principal State officials.
- The **Financial Section** begins with the State Auditor General's Independent Auditors' report and contains the General Purpose Financial Statements, Combining Financial Statements by Fund Type and Account Group, and other schedules.
- The **Statistical Section** includes selected financial, economic and demographic data.

FINANCIAL REPORTING ENTITY

The accompanying CAFR includes all funds and account groups of the State of Arizona (primary government), as well as its component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government.

The criteria for inclusion in the reporting entity and its presentation are defined by the Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standards Board, (Section 2100). Note 1.B of the Notes to the Financial Statements explains which units are included in the Financial Reporting Entity of the State.

ECONOMIC CONDITION AND OUTLOOK

The following economic summary is excerpted from the Arizona Department of Economic Security's Arizona's Workforce, September 2, 1999.

The Arizona Department of Economic Security, Research Administration (RA) forecasts that the Grand Canyon State's

economy will grow by more than 127,000 jobs during the 1999-2000 period. With the exception of mining, all other industries are expected to expand their workforces. Generally, this forecast translates into a growth of 13,800 jobs in the goods producing industries and 113,600 jobs in the service producing industries. Based on this forecast, the decade of the 1990s will have shown Arizona's economy to have grown by nearly 668,000 nonfarm jobs – an expansion of almost 50 percent.

Arizona's economy for 1999 is forecast to show 12-month average growth of nearly 73,000 jobs, representing an annual growth rate of 3.5 percent. Nationally, jobs are forecast to grow 1.9 percent in 1999 and four-tenths of one percentage point in 2000.

Job growth is forecast to continue in Arizona's economy in 2000. The first year of the new millenium is expected to show the economy creating 54,600 jobs. While construction is expected to experience its first loss since 1991, all other industries are forecast to add jobs – again, except mining.

Back in January 1992, Arizona's mining industry represented more than 2.1 percent of all nonfarm jobs in the State. With the layoffs occurring this year, the remaining employment in the mining industry represents less than one half of one percent of all jobs. While mining, especially for copper, has represented a valuable industry for the State, clearly the trend over time has been one of declining economic significance.

Economic conditions abroad are expected to improve during the forecast period, as the latest indicators have already been suggesting. As Arizona moved into the 1990s, the economic industry mix became more diversified and increasingly developed international dependencies. This has been especially the case for manufacturing in the Phoenix area, an economy still experiencing some of the lagging effects of the Asian economic crisis.

Arizona has become known as a great place to live and to conduct business. The latest registration data from the Department of Motor Vehicles suggest that the inflow of people to the State has not abated much in the last couple of years, even showing a slight increase in 1999. In an economic environment where interest rates are still at modestly low levels, Arizona's construction activity in recent years has been nothing short of blazing. While permit data show nonresidential activity is slowing, residential construction has continued to grow at a rather brisk pace.

Overall, Arizona's economy has performed exceptionally well throughout the 1990s. The RA remains convinced that the national and Arizona economies are slowing, but not at risk structurally. National policy moves have thus far been aimed at managing growth within acceptable bounds of inflationary stimulation. Arizona's economy is forecasted to see continued growth as all of us now prepare to take that grand step across the threshold into the new millennium.

MAJOR INITIATIVES

Tax Policy. The Governor has committed to reducing the tax burden associated with the Vehicle License Tax (VLT) and to provide targeted reductions that stimulate the economy by attracting higher paying jobs. The Governor recommended and the Legislature agreed to reduce the VLT by 16 percent as part of the Fiscal Year 1999 budget. Over the Fiscal Year 2000/Fiscal Year 2001 biennium, these reductions continue. The biennial budget includes a VLT reduction of $20 million in Fiscal Year 2000 and $40 million in Fiscal Year 2001. Further, if revenues exceed predetermined levels, additional VLT reductions will go into effect. These reductions continue to hold cities, counties and transportation funding harmless in the quest to slash this onerous tax.

The adopted budget also includes further reductions in the corporate income tax rate and to expand the research and development tax credit.

Quality of Life. The budget for Fiscal Years 2000 and 2001 provides $20 million in Fiscal Year 2001 to implement the voter-approved Growing Smarter initiative. Those funds are part of the State Parks Board budget and will be dedicated for the next 11 years. The initiative dedicates the funds to conserving open spaces on or near urban areas that are experiencing high growth pressures.

The adopted budget includes an additional $3 million to support Arizona's Clean Water and Safe Drinking Water Revolving Funds. This funding represents the Federally required 20% match for the $21.7 million allocation provided to the State under the Clean Water Act. Monies in those funds will provide to Arizona communities assistance and low-cost loans necessary for the construction and maintenance of basic environmental infrastructures and the protection of public health.

Education. State government faces no greater opportunity to secure Arizona's future than to enhance public education, in terms of both operational excellence and meeting school districts' capital needs. The adopted budget identifies and provides for $391.8 million in new Maintenance and Operation (M&O) funding, from a variety of sources, for K-12 schools over the course of the biennium.

The increase includes: $174.1 million for required formula spending, $177.4 million for additional M&O funding, an estimated $20 million in extracurricular activities funding associated with tax credits, $17.5 million in Federal funding for additional teachers and $1.7 million for implementation of State standards.

The State's University system continues to provide a wide range of quality academic programs at an extremely reasonable cost for Arizona citizens. Undergraduate tuition

rates are the third lowest among senior public universities in the U.S.

The adopted budget includes over $30 million in additional funding for the University system during the biennium to (a) ensure the maintenance of quality and access to higher education for Arizona citizens and (b) maintain Constitutionally required low tuition rates. The adopted budget also includes an increase of over $21 million for Arizona's community colleges.

Health and Welfare. Governor Hull is committed to helping families in a myriad of ways, including improving accessibility to health care, increasing child safety, and easing the transition from welfare to work.

This year the Governor continues with her proposals to dedicate proceeds from the nationwide Tobacco Settlement to endow present and future Arizonans with access to health care, invest millions in improvements at the State hospital and continue and improve services provided by the Arizona Health Care Cost Containment System and the departments of Health Services and Economic Security.

Spending on health and welfare initiatives represent almost one-quarter of the General Fund increase for the fiscal years 2000 and 2001, even after budget reductions to account for lower health and welfare caseloads and decreases in related administrative overhead.

Public Safety. The mission "To Protect and Serve" is a commitment made throughout the Executive Budget, to ensure that government will have the resources necessary to provide for the safety of the citizens of Arizona.

The Department of Corrections continues to experience rapid growth. The July 1, 1999, population of 26,169 inmates is projected to continue increasing by 132 per month during Fiscal Years 2000 and 2001.

To meet the continued growth of the prison population, the Legislature had the foresight to commit substantial resources for the development and construction of the new Lewis Prison complex at Buckeye. Final completion of the Lewis complex during Fiscal Year 2000 will provide 4,150 new beds: 1,200 opened in Fiscal Year 1999 and 2,950 expected to open in Fiscal Year 2000. The adopted budget has dedicated significant resources for staffing the Lewis complex, including $44.1 million for Fiscal Year 2000.

Budget Stabilization Fund. The adopted budget allows the balance to grow by retaining interest within the fund, bringing the fund balance to an estimated $405 million, including interest, by the end of fiscal year 2000.

SERVICES PROVIDED BY THE STATE

The services provided by the State are administered through various agencies, departments, boards, commissions and institutions of higher learning. These services include: (1) General Government, (2) Health and Welfare, (3) Inspection and Regulation, (4) Education, (5) Protection and Safety, (6) Transportation and (7) Natural Resources.

GENERAL GOVERNMENTAL FUNCTIONS

General Governmental activities are accounted for in four Governmental Fund types: (1) General Fund, (2) Special Revenue Funds, (3) Debt Service Funds and (4) Capital Project Funds.

General Governmental revenues totaled $12.46 billion for the fiscal year ended June 30, 1999, an increase of 9.0% over 1998.

Taxes, the single largest source of general governmental revenue, produced 65% of general governmental revenue. The amount of revenues from various sources and changes from last year are shown below in Table 1.

Table 1 **GENERAL GOVERNMENTAL REVENUES**
(Expressed in Thousands)

Revenue Source	Amount	Percent of Total	Increase / (Decrease) From 1998 Amount	Percent
Sales Taxes	$3,508,326	28.1%	$298,308	9.3%
Income Taxes	2,648,241	21.3	187,639	7.6
Motor Vehicle and Fuel Taxes	1,412,052	11.3	79,993	6.0
Property Taxes	52,785	0.4	(2,569)	(4.6)
Intergovernmental Revenues	3,756,729	30.2	395,502	11.8
Licenses, Fees and Permits	183,817	1.5	13,394	7.9
Earnings on Investments	145,397	1.2	(17,563)	(10.8)
Other Taxes and Revenues	749,979	6.0	71,877	10.6
Total	$12,457,326	100.0%	$1,026,581	9.0%

The total revenue increase of $1.027 billion or 9.0% was the result of several factors.

The 9.3% increase in Sales Taxes reflects the increased economic growth occurring in the State. Sales Taxes have consistently outpaced both the prior year collections and the current year forecasts.

The 7.6% increase in Income Taxes reflects the increase in job growth, wage earnings and corporate income tax collections.

The 6.0% increase in Motor Vehicle and Fuel Taxes resulted from an increase in the number of motor vehicles being utilized in the State.

The 4.6% decrease in Property Taxes resulted from a reduction in property tax collections in the General Fund.

The 11.8% increase in Intergovernmental Revenues resulted from the increase in Federal funding for health and welfare and transportation programs.

The 7.9% increase in Licenses, Fees and Permits resulted primarily from the increase in license, fees and permit activity related to regulatory and motor vehicle licensing.

The 10.8% decrease in Earnings on Investments was the result of a decrease in the fair value of investments and the reversal of the prior year's accrual.

The 10.6% increase in Other Taxes and Revenues resulted primarily from an increase in insurance premium taxes, fines, forfeitures, penalties and other revenues.

General Governmental expenditures totaled $11.64 billion for the fiscal year ended June 30, 1999, an increase of 10.5% over 1998. State Government expenditures and the changes from last year are shown below in Table 2.

The total expenditures increase of $1.10 billion or 10.5% was the result of the factors described below.

The 11.5% increase in General Government expenditures resulted primarily from the increase in the cost of operating State government and the increase in intergovernmental revenue sharing. These amounts are recorded as General Government expenditures on the State's financial statements.

The 7.5% increase in Health and Welfare expenditures resulted primarily from an increase in expenditures related to the Arizona Department of Economic Security and the Arizona Health Care Cost Containment System programs. In addition there was an increase in the expenditures related to the Tobacco Tax funded programs.

The 6.9% increase in Inspection and Regulation expenditures resulted from the increased growth in providing inspection and regulatory services.

The 9.2% increase in Education expenditures resulted from additional funding for increased student growth and increased Basic State Aid to public and charter schools. The increase also includes over $100 million sent to the counties for new school facilities and the rehabilitation of existing school facilities.

The 13.0% increase in Protection and Safety expenditures resulted primarily from an increase in the prison population and the opening of 1,200 adult prison beds at the Lewis Complex correctional facility.

The 16.6% increase in Transportation expenditures resulted from the increases in expenditures related to highway construction and an increase in intergovernmental revenue sharing. These amounts are recorded as Transportation expenditures on the State's financial statements.

The 35.0% increase in Capital Outlay expenditures resulted primarily from the increase in expenditures for highway construction within Maricopa County.

The 4.9% increase in Debt Service expenditures resulted primarily from the increase in principal payments for revenue bonds for the Maricopa Regional Area Road Fund.

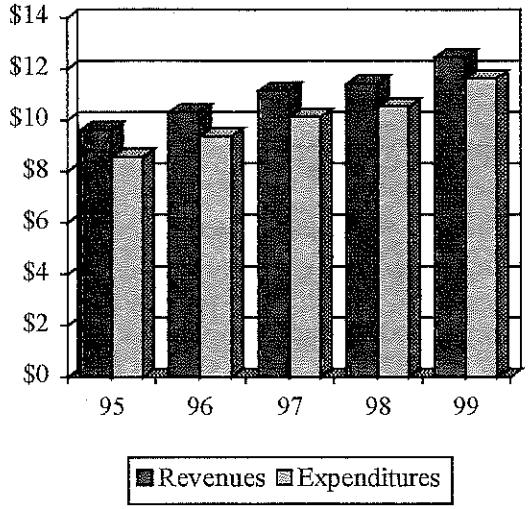
Table 2 **GENERAL GOVERNMENTAL EXPENDITURES**
(Expressed in Thousands)

Expenditure Function	Amount	Percent of Total	Increase / (Decrease) From 1998 Amount	Percent
General Government	$ 1,375,368	11.8%	$ 141,391	11.5%
Health and Welfare	4,125,781	35.5	286,351	7.5
Inspection and Regulation	104,825	0.9	6,784	6.9
Education	2,827,148	24.3	238,106	9.2
Protection and Safety	775,480	6.7	89,172	13.0
Transportation	1,748,482	15.0	248,931	16.6
Natural Resources	93,099	0.8	(2,815)	(2.9)
Capital Outlay	319,134	2.7	82,747	35.0
Debt Service	269,457	2.3	12,596	4.9
Total	$11,638,774	100.0%	$1,103,263	10.5%

Graph 1 details the General Governmental Revenues and Expenditures for the last five fiscal years:

Graph 1

General Governmental Revenues and Expenditures
for last 5 fiscal years
(*Dollars in billions*)

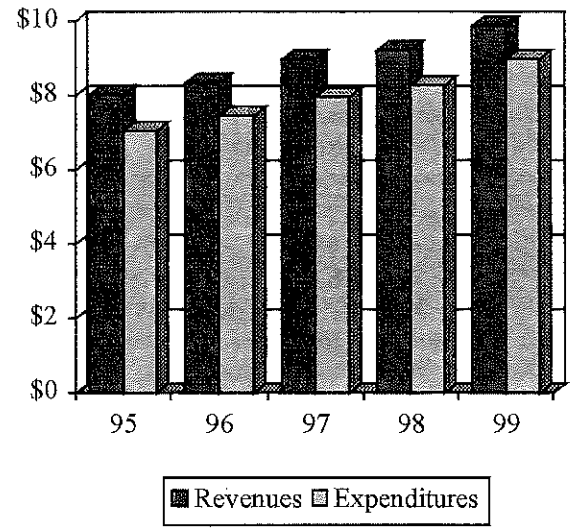


GENERAL FUND BALANCE

Graph 2 details the General Fund Revenues and Expenditures for the last five fiscal years. This graph does not include operating transfer amounts relating to other fund types and other financing sources (uses), which affect the ending fund balance.

Graph 2

General Fund Revenues and Expenditures
for last 5 fiscal years
(*Dollars in billions*)

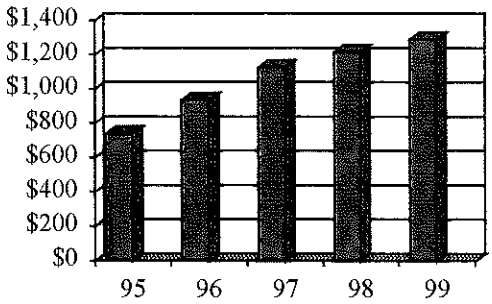


The General Fund ended the June 30, 1999, fiscal year with $818.8 million in unreserved fund balance and a $472.1 million reserved fund balance for a total fund balance of $1.291 billion. This compares to the previous year total fund balance of $1.215 billion. Included in the $472.1 million reserved fund balance is $386.8 million for the Budget Stabilization Fund. The Budget Stabilization Fund is a form of "Rainy Day Fund" established by the Legislature in 1991.

Graph 3 details the General Fund Balance for the last five fiscal years:

Graph 3

General Fund Balance for last 5 fiscal years
(*Dollars in millions*)



BUDGETARY CONTROLS

Budgetary control is maintained through legislative appropriation and the executive branch allotment process. The Governor is required to submit an annual budget to the Legislature. The budget is legally required to be adopted through passage of appropriation bills by the Legislature and approval by the Governor. The appropriated funds are controlled by the executive branch through an allotment process. This process allocates the appropriation into quarterly allotments by legal appropriation level. The State also maintains an encumbrance accounting system to further enhance budgetary control. Encumbered amounts generally lapse as of the end of the fiscal year, with the exception of capital outlay items. Capital outlay appropriations and their encumbrances continue from year to year.

The State's budgetary policies and procedures, fund accounting structure and basis of accounting are explained in detail in Note 1. of the Notes to the Financial Statements.

INTERNAL CONTROLS

The State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. In the opinion of management, the State's internal controls are adequate to provide reasonable assurance that these objectives are met.

CASH MANAGEMENT

The responsibility for cash management of the State is shared by the Office of the Treasurer (Treasurer) and the General Accounting Office of the Department of Administration, Financial Services Division (GAO). The Treasurer is responsible for the depository, custodial and investment functions of cash. The GAO is responsible for drawing down monies available for State functions and the expenditure or disbursement of those monies.

The State requires that Treasurer's deposits and investments with financial institutions be entirely covered by Federal depository insurance or alternatively collateralized with surety equal to 102% of the deposit or investment. Component units may have collateralization policies that differ from those of the Treasurer.

The Legislature has passed statutes authorizing State investments. Note 3.A. in the Notes to the Financial Statements describes the types of investments made by the State.

The Treasurer deposits receipts in accordance with applicable statutes and invests excess cash of the General Fund and various other funds. All interest, not otherwise apportioned by law, is deposited in the General Fund. Investment earnings for the General Fund totaled $94.8 million for the fiscal year ended June 30, 1999.

PROPRIETARY OPERATIONS

The State's Enterprise Funds are comprised of governmental and quasi-governmental agencies that provide goods and services to the public on a fee for service basis. One of the largest Enterprise Funds is the Lottery Fund. The Lottery Fund generated $269.2 million of operating revenues and $44.7 million of income before transfers for fiscal year 1999. The Enterprise Funds ended fiscal year 1999 with a combined equity of $156.8 million for the Primary Government and $101.0 million for the Component Units (GAAP basis). The State Compensation Fund's Policyholders' Surplus was $320.4 million (Non-GAAP basis).

The State has Internal Service Funds which provide a variety of services to State agencies. These include risk management, computer services, telecommunications, transportation services, printing services and other services. The operating revenues for the Internal Service Funds were $159.3 million for fiscal year 1999.

TRUST AND AGENCY FUNDS

Trust and Agency Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations and other governments, including the four State Retirement Systems. The Trust and Agency Funds for the Primary Government reported a year-end equity of $33.13 billion as compared to the previous year end of $29.20 billion. See Note 7. in the Notes to the Financial Statements for more information on the four State Retirement Systems. The Fiduciary Fund Type Component Unit reported a year-end equity of $126.9 million.

DEBT ADMINISTRATION

The Arizona Constitution, under Article 9 Section 5, provides that the State may contract debts not to exceed $350,000. This provision has been interpreted to restrict the State from pledging its credit as a sole payment for debts incurred for the operation of State government. As a result, the State, including the Enterprise Funds and the University Funds, finances most of its major capital needs by lease purchase transactions and by issuing revenue bonds. Lease purchase transactions are funded by Certificates of Participation (COPs). Revenue bonds are associated with specific State functions and are funded by dedicated revenue sources.

The State first issued COPs in 1984 to acquire and construct a building for the Industrial Commission. Since that time, additional issues have been transacted for the construction and purchase of buildings and other structures, as well as telecommunication systems for two of the Universities. The State issued COPs during fiscal year 1992 which provide for the sale and leaseback of prison facilities in Florence, Arizona. The proceeds were used to reimburse the General Fund for the expenditures incurred in purchasing the ENSCO Hazardous Waste Facility. In all cases, the Attorney General determined that the issuance of the COPs was in accordance with the provisions of the Constitution.

The State did not issue any new COPs and retired $33.3 million during the fiscal year ended June 30, 1999. The State had $326.9 million in COPs outstanding at year end. Principal and interest are covered by lease payments out of

current revenues or appropriations from the fund responsible for utilization of the specific buildings.

The State has issued revenue bonds primarily to finance the construction of highways. They have also been issued for the construction of buildings and other facilities. The State's senior lien highway revenue bonds currently carry an Aa1/AAA rating from Moody's Investor Service, Inc. and Standard and Poor's Rating Service. The State issued $178.3 million of revenue bonds and retired $211.3 million during the fiscal year ended June 30, 1999. The State had $2.11 billion in bonds outstanding at year-end, an increase of $116.8 million from fiscal year 1998. This increase was primarily the result of the Water Infrastructure Finance Authority being added to the reporting entity. The Arizona Department of Transportation Highway Revenue Bonds accounted for $1.257 billion of the total bonds outstanding. See Note 9.A. and 9.B. in the Notes to the Financial Statements for additional information on revenue bonds and COPs.

RISK MANAGEMENT

The State purchases property and liability coverage whenever available on reasonable terms. The State is insured by an approved property insurer for claims in excess of $100 thousand but less than $350 million and liability claims in excess of $1 million for the Universities and $4 million for all other state agencies but less than $79 million. The State also maintains an excess workers' compensation policy for claims in excess of $1 million and first dollar aircraft coverage up to $200 million. Other purchased coverages include fidelity, crop, foreign liability, workers' compensation and medical malpractice. The State's self-insurance fund provides property and liability coverage for claims less than or in excess of this coverage or whenever coverage is unavailable on reasonable terms.

The State pays self-insurance losses from a fund to which monies are appropriated each year by the Legislature. Monies remaining at the end of a fiscal year carry over to the next fiscal year, but are part of the appropriation made for that fiscal year to pay expected losses and costs. Self-insurance losses and claims-related expenses (excluding the cost of administering the program) have risen from approximately $15.3 million in fiscal year 1988 to approximately $79.9 million in fiscal year 1999. Yearly appropriations have also increased from approximately $27.7 million in fiscal year 1988 to approximately $82.0 million in fiscal year 1999 to meet such rising losses and claims-related expenses. Although there are no assurances, historically the Legislature has appropriated sufficient funds to cover all costs.

INDEPENDENT AUDIT

In compliance with State statute, an annual financial audit of the "State Entity" is completed each year by the State of Arizona, Office of the Auditor General in conjunction with other audit firms. Their audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Their report on the general purpose financial statements has been included in the financial section of this report. In addition, ARS §41-1279.03 requires at least a biennial single audit by the Office of the Auditor General. The Single Audit will be issued as a separate report at a later date.

ACKNOWLEDGMENTS

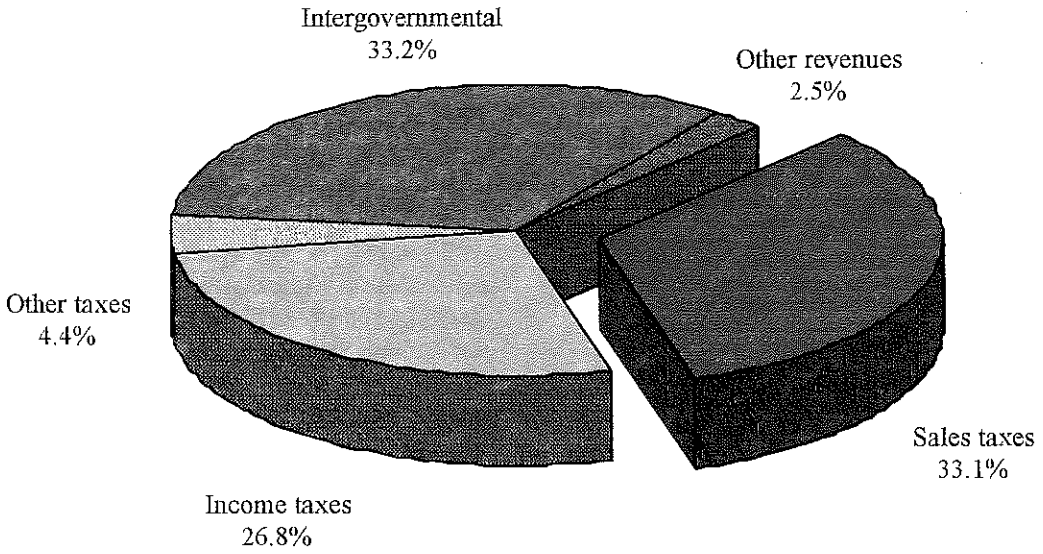
We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each State agency, board, commission and institution of higher education.

J. Elliott Hibbs
Director

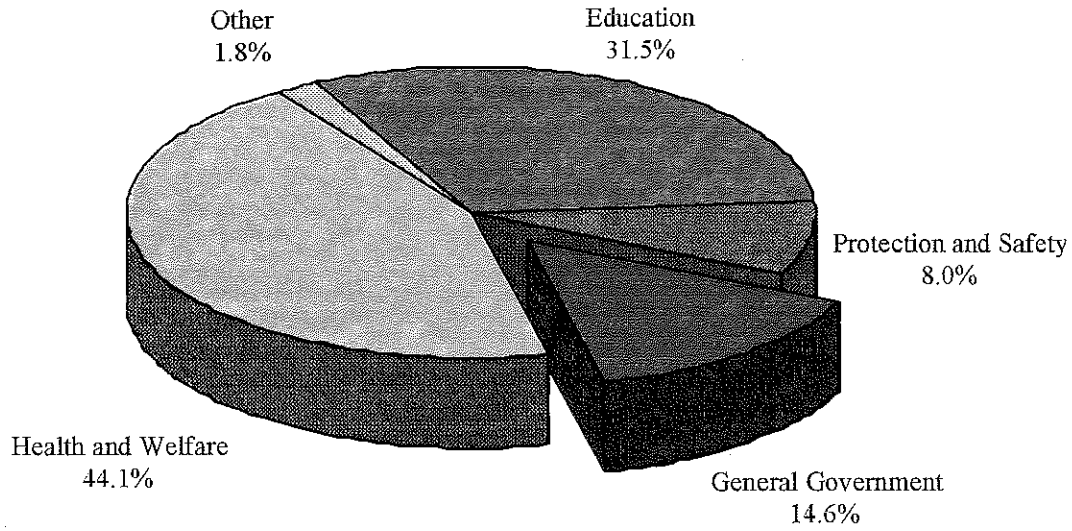
Robert Rocha
State Comptroller

STATE OF ARIZONA
GRAPHIC PRESENTATION OF REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Revenues by Source

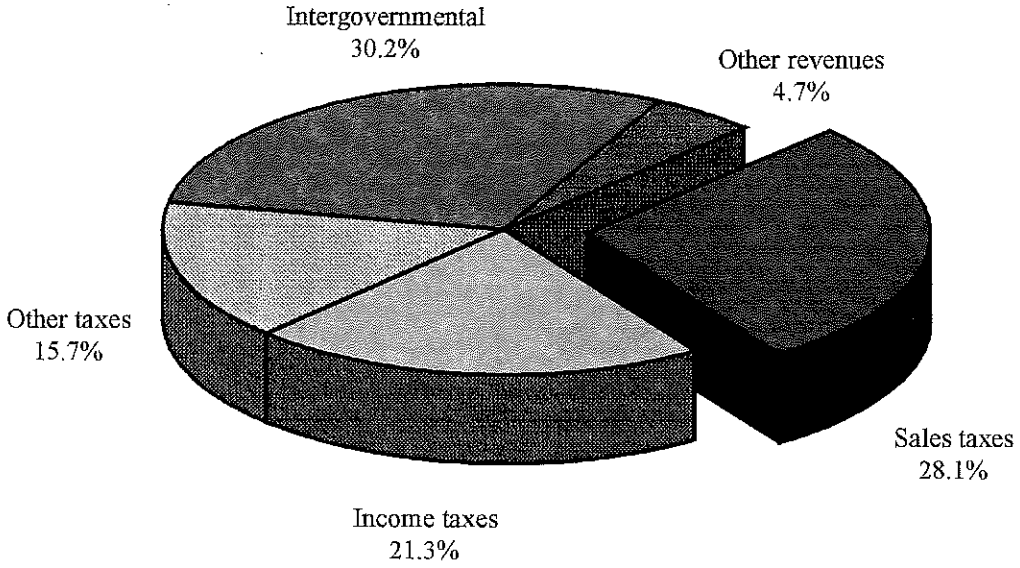


Expenditures by Function

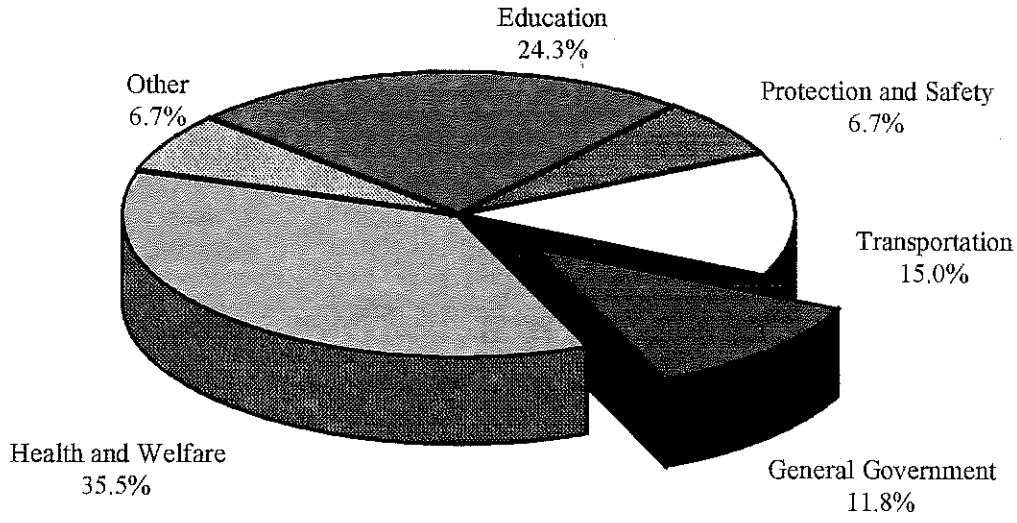


STATE OF ARIZONA
GRAPHIC PRESENTATION OF REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

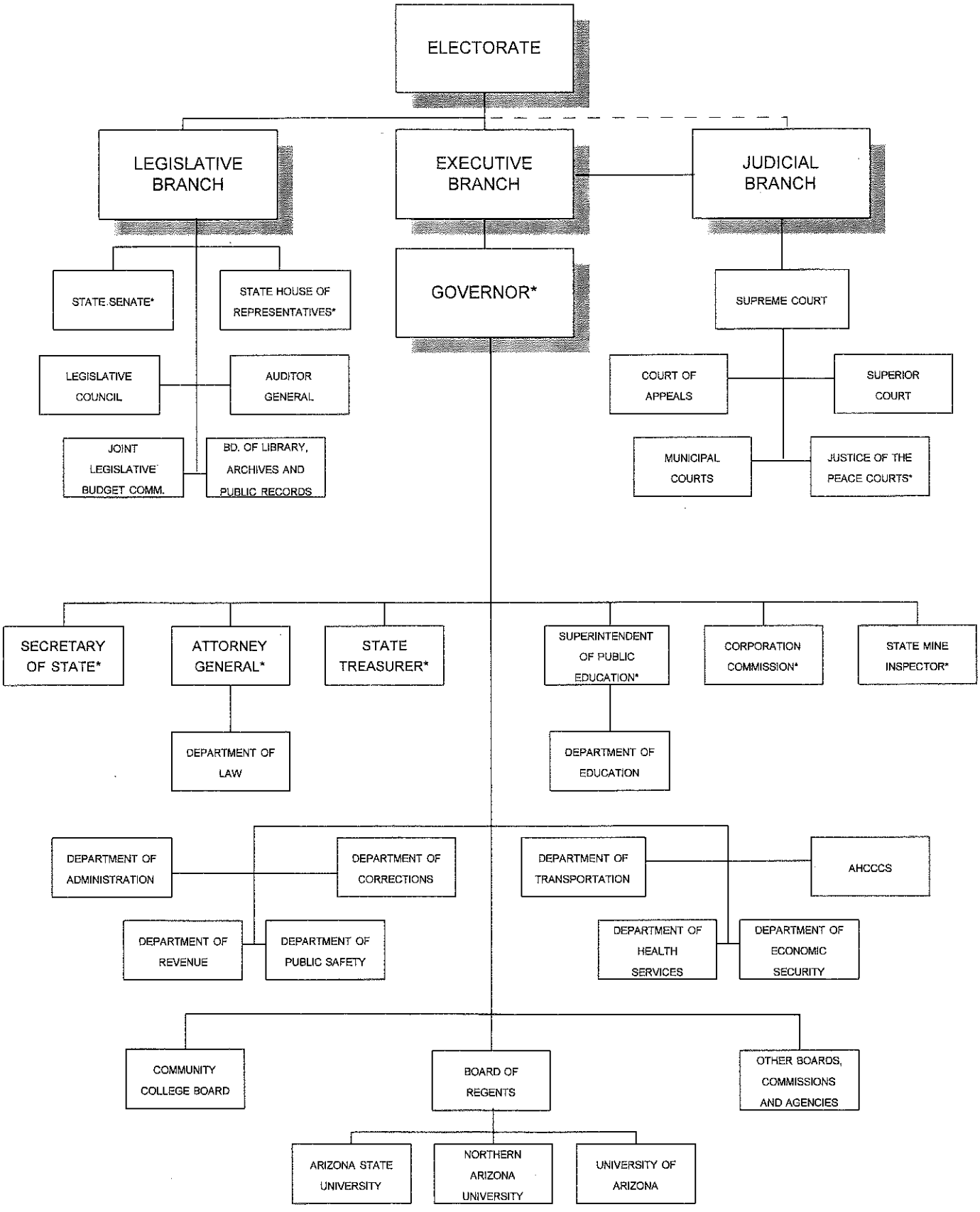
Revenues by Source



Expenditures by Function



ARIZONA STATE GOVERNMENT ORGANIZATION



* ELECTED OFFICIALS

STATE OF ARIZONA
PRINCIPAL STATE OFFICIALS
JUNE 30, 1999

ELECTED OFFICIALS

Jane Dee Hull, Governor

Senator Brenda Burns, President of the Senate

Representative Jeff Groscost, Speaker of the House

Thomas A. Zlaket, Chief Justice

Betsey Bayless, Secretary of State

Janet Napolitano, Attorney General

Carol Springer, State Treasurer

Lisa Graham Keegan, Superintendent of Public Instruction

Carl J. Kunasek, Chairman - Corporation Commission

William A. Mundell, Commissioner - Corporation Commission

Jim Irvin, Commissioner - Corporation Commission

Douglas K. Martin, State Mine Inspector

APPOINTED OFFICIALS

Executive Officials

J. Elliott Hibbs, Director - Department of Administration

Terry L. Stewart, Director - Department of Corrections

John L. Clayton, Director - Department of Economic Security

Mark Killian, Director - Department of Revenue

Joe Albo, Director - Department of Public Safety

James L. Schamadan, M.D., Acting Director - Department of Health Services

Phyllis Biedess, Director - Arizona Health Care Cost Containment System

Mary Peters, Director - Department of Transportation

Legislative Officials

Michael E. Braun, Executive Director - Legislative Council

Richard Stavneak, Director - Joint Legislative Budget Committee

Debra K. Davenport, CPA, Auditor General

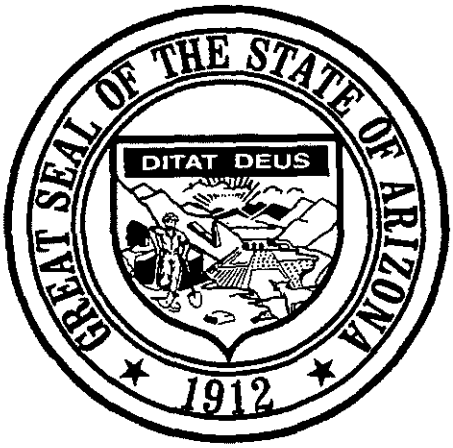
Gladys Ann Wells, Director - Board of Library, Archives and Public Records

University Officials

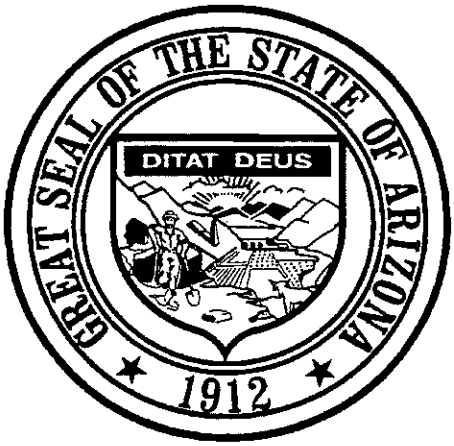
Lattie F. Coor, Ph.D., President - Arizona State University

Clara M. Lovett, President - Northern Arizona University

Peter Likins, President - University of Arizona


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

Financial Section



1912 east Capitol elevation and entry lined with shrubs and circular turnaround. Note the trees without leaves and awnings retracted to help heat the building in the winter.

INDEPENDENT AUDITORS' REPORT

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Independent Auditors' Report

The Honorable Jane Dee Hull, Governor
State of Arizona

The Honorable Brenda A. Burns, President
Arizona State Senate

The Honorable Jeffrey S. Groscost, Speaker
Arizona House of Representatives

The Honorable Thomas A. Zlaket, Chief Justice
Arizona Supreme Court

We have audited the accompanying general purpose financial statements of the State of Arizona as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain departments and component units included in the general purpose financial statements of the State of Arizona, which account for the following percentages of the assets, general long-term debt (GLTD), and revenues and other financing sources of the fund type, account group, or discretely presented component unit affected.

Fund Type/Account Group/Component Unit	Assets/ GLTD	Revenues and Other Financing Sources	Department/Component Unit
General	8%	14%	Arizona Health Care Cost Containment System
Special Revenue	15%	4%	Arizona Health Care Cost Containment System
	50%	78%	Department of Transportation
Capital Projects	31%	67%	Department of Transportation
Debt Service	89%	87%	Department of Transportation

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Fund Type/Account Group/Component Unit	Assets/ GLTD	Revenues and Other Financing Sources	Department/Component Unit
Enterprise	1%	6%	Arizona Health Care Cost Containment System
	6%	22%	ComCare, Inc.
	2%	2%	Department of Transportation
	11%	54%	Lottery
Internal Service	29%	17%	Department of Transportation
Trust and Agency	2%	2%	Corrections Officer Retirement Plan
	1%	1%	Elected Officials' Retirement Plan
	15%	11%	Public Safety Personnel Retirement System
	62%	40%	State Retirement System
General Fixed Assets	11%	N/A	Department of Transportation
General Long-Term Debt	78%	N/A	Department of Transportation
Proprietary Fund Type Component Units	25%	8%	Arizona Power Authority
	75%	92%	University Medical Center
Fiduciary Fund Type Component Unit	100%	100%	Water Infrastructure Financing Authority
Non-GAAP Component Unit	100%	100%	State Compensation Fund

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Pension Trust Funds, included in the Trust and Agency Funds; the University Medical Center and Arizona Power Authority, included in the Proprietary Fund Type Component Units; and the State Compensation Fund Component Unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

As described in Note 1, the State Compensation Fund prepares its financial statements on a statutory basis in conformity with the accounting practices prescribed or permitted by the Arizona Department of Insurance, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, except for the financial statements of the State Compensation Fund referred to in the preceding paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Arizona as of June 30, 1999, and the results of its operations, the cash flows of its proprietary funds and similar trust funds, the changes in plan net assets of its pension trust funds, the changes in pool net assets of its investment trust funds, the changes in fund balances of its university funds, and the current operating funds revenues, expenditures, and other changes of its university funds for the year then ended in conformity with generally accepted accounting principles.

Also, in our opinion, based on the report of the other auditors, the statutory basis financial statements of the State Compensation Fund present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Fund at December 31, 1998, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

As further discussed in Note 16, the assets and liabilities of ComCare, Inc., are presented in the accompanying financial statements at estimated net realizable values and estimated settlement amounts. Subsequent to June 30, 1999, Comcare, Inc., completed a formal plan of liquidation.

Our audit was made for the purpose of forming an opinion on the financial statements of the State of Arizona taken as a whole. Disclosure regarding the year 2000 issue on pages 88-91 is not a required part of the State of Arizona's financial statements, but it is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the supplementary information; however, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the State of Arizona is or will become year 2000 compliant, that the State of Arizona's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Arizona does business are or will become year 2000 compliant.

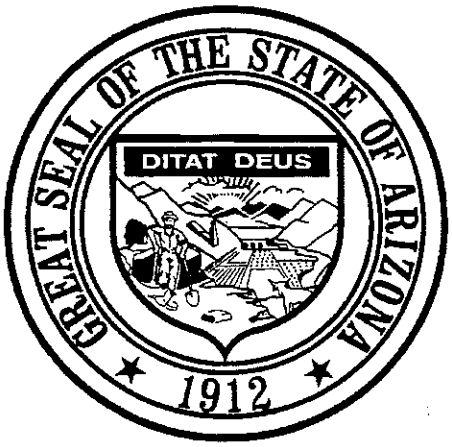
In addition, the combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants at a future date.

Debbie Davenport
Auditor General

December 10, 1999



Circa 1912 to 1915 view of the Capitol from the north east with diagonal walks and awnings extended.

General Purpose Financial Statements

STATE OF ARIZONA
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 1999
(State Compensation Fund Reported on Statutory Basis of Accounting)
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY
ASSETS AND OTHER DEBITS							
Assets:							
Cash and investments	$ 1,258,719	$ 1,175,180	$ 36,764	$ 73,317	$ 330,120	$ 78,600	$ 38,569,492
Cash held by trustee	-	-	-	-	-	-	-
Investments held by trustee	-	-	-	-	-	-	-
Receivables, net of allowances:							
Taxes	473,649	177,464	-	2,009	-	-	46,409
Interest	10,276	6,380	2,195	657	2,539	47	127,443
Other	24,331	48,536	-	-	22,382	2,142	254,134
Due from U.S. Government	199,840	45,978	-	-	-	-	-
Due from local governments	429	22,534	-	-	-	20	-
Due from others	-	-	-	-	-	-	1
Due from other Funds	25,703	36,937	-	6,428	60	5,355	14,900
Inventory of food stamps	17,805	-	-	-	-	-	-
Inventories, at cost	6,572	5,627	-	-	9,997	3,118	84
Other	293	-	-	-	8,252	1,926	1,808
Fixed assets:							
Property and equipment	-	-	-	-	83,761	167,631	12,659
Less: accumulated depreciation	-	-	-	-	(36,930)	(105,235)	(1,189)
Total Assets	2,017,617	1,518,636	38,959	82,411	420,181	153,604	39,025,741
Other Debits:							
Amount available for retirement of long-term debt	-	-	-	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-
Total Assets and Other Debits	$ 2,017,617	$ 1,518,636	$ 38,959	$ 82,411	$ 420,181	$ 153,604	$ 39,025,741

The Notes to the Financial Statements are an integral part of this statement.

ACCOUNT GROUPS				COMPONENT UNITS		
GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	UNIVERSITY	TOTAL (MEMORANDUM ONLY) PRIMARY GOVERNMENT	PROPRIETARY AND FIDUCIARY FUND TYPES	STATE COMPENSATION FUND NON-GAAP BASIS	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ -	$ -	$ 632,492	$ 42,154,684	$ 175,590	$ 2,135,685	$ 44,465,959
-	-	56,085	56,085	-	-	56,085
-	-	-	-	31,333	-	31,333
-	-	-	699,531	-	-	699,531
-	-	-	149,537	3,167	18,627	171,331
-	-	112,800	464,325	188,559	25,803	678,687
-	-	-	245,818	-	-	245,818
-	-	-	22,983	-	-	22,983
-	-	-	1	-	-	1
-	-	2,854	92,237	-	-	92,237
-	-	-	17,805	-	-	17,805
-	-	14,292	39,690	7,551	-	47,241
-	-	5,442	17,721	64,144	1,398	83,263
1,748,712	-	3,031,901	5,044,664	252,915	8,610	5,306,189
-	-	-	(143,354)	(133,554)	(6,925)	(283,833)
1,748,712	-	3,855,866	48,861,727	589,705	2,183,198	51,634,630
-	35,972	-	35,972	-	-	35,972
-	1,581,894	-	1,581,894	-	-	1,581,894
$ 1,748,712	$ 1,617,866	$ 3,855,866	$ 50,479,593	$ 589,705	$ 2,183,198	$ 53,252,496

(Continued)

STATE OF ARIZONA
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 1999
(State Compensation Fund Reported on Statutory Basis of Accounting)
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	$ 171,466	$ 149,572	$ 4	$ 16,636	$ 13,125	$ 7,217	$ 133,023
Accrued liabilities	29,546	11,924	-	145	663	1,412	16,256
Obligations under securities loan agreements	-	-	-	-	38,453	-	2,185,841
Tax refunds payable	16,589	-	-	-	-	-	-
Due to U.S. Government	73	-	-	-	-	-	-
Due to local governments	127,497	136,034	-	-	7,580	-	31,441
Due to others	34,440	103	2,983	-	-	124	61,578
Due to other Funds	20,968	29,333	-	1,891	10,846	1,102	25,243
Deferred revenue	137,868	2,095	-	-	6,806	-	29,667
Accrued compensated absences	-	-	-	-	776	892	-
Accrued insurance losses	182,880	7	-	-	153,983	219,748	-
Revenue bonds	-	-	-	-	-	-	-
Certificates of participation	-	-	-	-	10,800	-	-
Leases and installment purchases	-	-	-	-	-	11	-
Accrued loss adjustment expenses	-	-	-	-	-	-	-
NCCI assigned risk pool liability	-	-	-	-	-	-	-
Policyholders' dividends	-	-	-	-	-	-	-
Other	5,324	6,106	-	-	20,346	8	3,409,274
Total Liabilities	726,651	335,174	2,987	18,672	263,378	230,514	5,892,323
Fund Equity and Other Credits:							
Net investment in fixed assets	-	-	-	-	-	-	-
Policyholders' surplus	-	-	-	-	-	-	-
Contributed capital	-	-	-	-	5,633	22,746	-
Retained earnings (deficits)							
Reserved	-	-	-	-	5,297	11,605	-
Unreserved	-	-	-	-	145,873	(111,261)	-
Fund balances:							
Reserved	472,135	644,058	35,972	34,161	-	-	33,133,418
Unreserved	818,831	539,404	-	29,578	-	-	-
Total Fund Equity and Other Credits	1,290,966	1,183,462	35,972	63,739	156,803	(76,910)	33,133,418
Total Liabilities and Fund Equity and Other Credits	$ 2,017,617	$ 1,518,636	$ 38,959	$ 82,411	$ 420,181	$ 153,604	$ 39,025,741

The Notes to the Financial Statements are an integral part of this statement.

ACCOUNT GROUPS				COMPONENT UNITS		
GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	UNIVERSITY	TOTAL (MEMORANDUM ONLY) PRIMARY GOVERNMENT	PROPRIETARY AND FIDUCIARY FUND TYPES	STATE COMPENSATION FUND NON-GAAP BASIS	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ -	$ -	$ 43,454	$ 534,497	$ 12,640	$ -	$ 547,137
-	-	33,870	93,816	14,252	14,037	122,105
-	-	-	2,224,294	-	-	2,224,294
-	-	-	16,589	-	-	16,589
-	-	-	73	-	-	73
-	-	-	302,552	-	-	302,552
-	-	-	99,228	-	-	99,228
-	-	2,854	92,237	-	-	92,237
-	-	121,861	298,297	1,921	38,263	338,481
-	139,905	-	141,573	3,420	-	144,993
-	-	-	556,618	6,713	1,505,045	2,068,376
-	1,257,492	559,109	1,816,601	289,167	-	2,105,768
-	198,246	100,084	309,130	-	-	309,130
-	22,223	7,087	29,321	-	-	29,321
-	-	-	-	-	187,352	187,352
-	-	-	-	-	28,721	28,721
-	-	-	-	-	89,373	89,373
-	-	54,154	3,495,212	33,692	-	3,528,904
-	1,617,866	922,473	10,010,038	361,805	1,862,791	12,234,634
1,748,712	-	2,325,620	4,074,332	-	-	4,074,332
-	-	-	-	-	320,407	320,407
-	-	-	28,379	115,417	-	143,796
-	-	-	16,902	6,126	-	23,028
-	-	-	34,612	106,357	-	140,969
-	-	-	34,319,744	-	-	34,319,744
-	-	607,773	1,995,586	-	-	1,995,586
1,748,712	-	2,933,393	40,469,555	227,900	320,407	41,017,862
$ 1,748,712	$ 1,617,866	$ 3,855,866	$ 50,479,593	$ 589,705	$ 2,183,198	$ 53,252,496

STATE OF ARIZONA
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES					
Taxes:					
Sales	$ 3,271,741	$ 236,585	$ -	$ -	$ 1
Income	2,648,241	-	-	-	30
Motor vehicle and fuel	72,920	1,333,161	-	5,971	-
Property	51,049	1,593	-	143	-
Unemployment	-	-	-	-	191,327
Other	305,902	163,165	-	24,693	-
Intergovernmental	3,272,453	484,276	-	-	1,397
Licenses, fees and permits	55,721	125,714	-	2,382	5,840
Earnings on investments	94,835	35,838	8,923	5,801	60,478
Sales and charges for services	11,211	36,372	-	-	327
Fines, forfeitures and penalties	11,317	62,953	-	-	5,940
Other	76,568	54,447	1,096	2,255	57,080
Total Revenues	9,871,958	2,534,104	10,019	41,245	322,420
EXPENDITURES					
Current:					
General government	1,307,408	67,960	-	-	230,084
Health and welfare	3,956,799	168,982	-	-	178,958
Inspection and regulation	41,758	63,067	-	-	4,329
Education	2,824,800	2,348	-	-	1,957
Protection and safety	721,158	54,322	-	-	2,156
Transportation	397	1,747,312	773	-	-
Natural resources	36,047	57,052	-	-	1,300
Capital outlay	84,517	31,442	-	203,175	1,487
Debt service:					
Principal	2,333	2,226	175,575	-	23
Interest and other fiscal charges	858	76	88,389	-	-
Total Expenditures	8,976,075	2,194,787	264,737	203,175	420,294
Revenues Over (Under) Expenditures	895,883	339,317	(254,718)	(161,930)	(97,874)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	123,378	76,844	263,787	41,300	184,005
Operating transfers in from component units	-	-	-	-	21
Operating transfers out	(973,249)	(352,720)	(3,129)	(16,118)	(3,283)
Capital lease and installment purchase contracts	4,896	593	-	-	-
Proceeds of refunding bonds	-	-	28,826	-	-
Payment to refunded bond escrow agent	-	-	(27,390)	-	-
Proceeds from sale of bonds	-	-	-	152,572	-
Certificate of participation proceeds	-	-	-	1	-
Total Other Financing Sources (Uses)	(844,975)	(275,283)	262,094	177,755	180,743
Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	50,908	64,034	7,376	15,825	82,869
Beginning Fund Balances, as restated	1,215,110	1,139,063	28,596	47,914	946,358
Residual Equity Transfers	24,948	(19,635)	-	-	(820)
Ending Fund Balances	$ 1,290,966	$ 1,183,462	$ 35,972	$ 63,739	$ 1,028,407

The Notes to the Financial Statements are an integral part of this statement.

	TOTAL (MEMORANDUM ONLY)
$	3,508,327
	2,648,271
	1,412,052
	52,785
	191,327
	493,760
	3,758,126
	189,657
	205,875
	47,910
	80,210
	191,446
	12,779,746
	1,605,452
	4,304,739
	109,154
	2,829,105
	777,636
	1,748,482
	94,399
	320,621
	180,157
	89,323
	12,059,068
	720,678
	689,314
	21
	(1,348,499)
	5,489
	28,826
	(27,390)
	152,572
	1
	(499,666)
	221,012
	3,377,041
	4,493
$	3,602,546

STATE OF ARIZONA
COMBINED STATEMENT OF REVENUES AND EXPENDITURES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
GENERAL, SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	GENERAL FUND		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
REVENUES			
Taxes:			
Sales	$ -	$ 2,642,369	$ -
Income	-	2,302,706	-
Property	-	51,049	-
Luxury	-	64,770	-
Insurance premium	-	150,704	-
Motor vehicle and fuel	-	96,416	-
Estate	-	87,250	-
Other	-	735	-
Non-Tax Revenues:			
Intergovernmental	-	2,882,890	-
License, fees and permits	-	55,720	-
Earnings on investments	-	99,405	-
Sales and charges for services	-	20,841	-
Fines, forfeitures and penalties	-	10,461	-
Other	-	82,504	-
Total Revenues	-	8,547,820	-
EXPENDITURES			
Current:			
General government	555,038	518,487	36,551
Health and welfare	3,294,285	2,805,384	488,901
Inspection and regulation	43,097	41,555	1,542
Education	3,477,448	3,465,617	11,831
Protection and safety	825,863	792,366	33,497
Transportation	8,724	5,610	3,114
Natural resources	47,447	46,251	1,196
Capital outlay	-	-	-
Total Appropriated Expenditures	8,251,902	7,675,270	576,632
Non-appropriated expenditures and appropriation transfers	-	2,627,619	-
OTHER FINANCING SOURCES (USES)			
Operating transfer in	-	1,771,914	-
Operating transfer out	-	-	-
Other financing source	-	-	-
Total Other Financing Sources	-	1,771,914	-
Revenues and Other Financing Sources Over Expenditures	-	16,845	-
Beginning Fund Balances, as restated	-	981,948	-
Residual Equity Transfers	-	24,948	-
Ending Fund Balances	$ -	$ 1,023,741	$ -

The Notes to the Financial Statements are an integral part of this statement.

SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
$ -	$ 236,536	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	11,479	-	-	143	-
-	122,194	-	-	24,383	-
-	23,401	-	-	-	-
-	887,412	-	-	5,971	-
-	-	-	-	-	-
-	9,201	-	-	-	-
-	496,598	-	-	-	-
-	309,348	-	-	2,381	-
-	53,473	-	-	5,794	-
-	152,948	-	-	-	-
-	67,078	-	-	-	-
-	24,870	-	-	2,262	-
-	2,394,538	-	-	40,934	-
48,971	37,574	11,397	-	-	-
46,193	32,959	13,234	-	-	-
57,712	53,898	3,814	-	-	-
2,970	1,981	989	-	-	-
25,523	23,468	2,055	-	-	-
920,810	518,556	402,254	-	-	-
25,639	21,067	4,572	-	-	-
-	-	-	90,540	64,070	26,470
1,127,818	689,503	438,315	90,540	64,070	26,470
-	1,816,683	-	-	157,387	-
-	226,470	-	-	43,596	-
-	(1,013)	-	-	-	-
-	-	-	-	152,572	-
-	225,457	-	-	196,168	-
-	113,809	-	-	15,645	-
-	1,080,370	-	-	46,029	-
-	(19,635)	-	-	-	-
$ -	$ 1,174,544	$ -	$ -	$ 61,674	$ -

STATE OF ARIZONA

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCES

ALL PROPRIETARY FUND TYPES, NON-EXPENDABLE TRUST FUNDS AND
PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	NON-EXPENDABLE TRUST	PRIMARY GOVERNMENT
OPERATING REVENUES				
Sales and charges for services:				
Lottery	$ 268,263	$ -	$ -	$ 268,263
Other	184,946	153,377	17,577	355,900
Intergovernmental	-	-	46	46
Motor vehicle and fuel taxes	93	-	-	93
Licenses, fees and permits	642	-	-	642
Earnings on investments	13,555	-	29,204	42,759
Gain on sale of land	-	-	22,294	22,294
Other	13,539	5,906	2,647	22,092
Total Operating Revenues	481,038	159,283	71,768	712,089
OPERATING EXPENSES				
Cost of sales and benefits	296,089	24,878	-	320,967
Personal services	48,915	27,633	73	76,621
Contractual services	14,924	23,150	1,115	39,189
Aid to local governments	40,216	1,230	108,856	150,302
Depreciation and amortization	7,200	14,038	281	21,519
Insurance	538	72,761	4	73,303
Other	26,799	6,810	9,363	42,972
Total Operating Expenses	434,681	170,500	119,692	724,873
Operating Income (Loss)	46,357	(11,217)	(47,924)	(12,784)
NON-OPERATING REVENUES (EXPENSES)				
Gain (loss) on sale of fixed assets	(1,650)	294	-	(1,356)
Interest income	2,313	169	10	2,492
Interest expense	(536)	-	-	(536)
Other	1,555	808	42	2,405
Net Non-operating Income	1,682	1,271	52	3,005
Income (Loss) Before Operating Transfers	48,039	(9,946)	(47,872)	(9,779)
OPERATING TRANSFERS				
Operating transfers in	12,518	2,055	4,010	18,583
Operating transfers out	(44,652)	(14,227)	(890)	(59,769)
Operating transfers out to primary government	-	-	-	-
Net Operating Transfers	(32,134)	(12,172)	3,120	(41,186)
Net Income (Loss)	15,905	(22,118)	(44,752)	(50,965)
Beginning Retained Earnings/Fund Balances/(Deficits), as restated	139,770	(77,038)	1,050,924	1,113,656
Residual Equity Transfers	(4,505)	(500)	512	(4,493)
Ending Retained Earnings/Fund Balances/(Deficits)	$ 151,170	$ (99,656)	$ 1,006,684	$ 1,058,198

The Notes to the Financial Statements are an integral part of this statement.

COMPONENT UNITS PROPRIETARY AND FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ -	$ 268,263
245,163	601,063
1,400	1,446
-	93
-	642
14,101	56,860
-	22,294
17,908	40,000
278,572	990,661
67,492	388,459
112,821	189,442
37,397	76,586
-	150,302
17,301	38,820
1,781	75,084
43,934	86,906
280,726	1,005,599
(2,154)	(14,938)
-	(1,356)
1,194	3,686
(885)	(1,421)
(222)	2,183
87	3,092
(2,067)	(11,846)
-	18,583
-	(59,769)
(21)	(21)
(21)	(41,207)
(2,088)	(53,053)
114,571	1,228,227
-	(4,493)
$ 112,483	$ 1,170,681

STATE OF ARIZONA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NON-EXPENDABLE TRUST FUNDS
AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	NON-EXPENDABLE TRUST	PRIMARY GOVERNMENT
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 46,357	$ (11,217)	$ (47,924)	$ (12,784)
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization	7,200	14,038	281	21,519
Net decrease in fair value of investments	6,328	-	39,515	45,843
Interest income from investing activities	-	-	-	-
Interest paid on bonds	-	-	-	-
Amortization of bond issuance costs	-	-	-	-
Total Adjustments	13,528	14,038	39,796	67,362
Changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	(3,150)	2,269	9,715	8,834
Decrease in due from U.S. Government	-	4	-	4
Decrease in due from local governments	-	94	-	94
Decrease in due from others	418	-	-	418
(Increase) decrease in due from other Funds	2	(3,014)	(2,523)	(5,535)
(Increase) decrease in inventories, at cost	449	188	-	637
(Increase) decrease in other current assets	950	(459)	-	491
Decrease in other long term assets	124	-	-	124
Increase (decrease) in accounts payable	(10,057)	2,221	(16,097)	(23,933)
Increase (decrease) in accrued liabilities	(2,149)	(182)	(4)	(2,335)
(Decrease) in due to U.S. Government	-	(1,911)	-	(1,911)
Increase in due to local governments	6,157	-	-	6,157
(Decrease) in due to others	-	(105)	-	(105)
Increase (decrease) in due to other Funds	5,266	1,102	(7,414)	(1,046)
Increase (decrease) in deferred revenue	(591)	(2)	1,477	884
Increase (decrease) in other current liabilities	1,936	(5)	1,250	3,181
Increase in accrued compensated absences	77	75	-	152
Increase (decrease) in accrued insurance losses	(5,886)	23,700	-	17,814
Increase (decrease) in other long-term liabilities	-	(11)	-	(11)
Net Changes in Assets and Liabilities	(6,454)	23,964	(13,596)	3,914
Net Cash Provided (Used) by Operating Activities	53,431	26,785	(21,724)	58,492
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Interest expense	(19)	-	-	(19)
Other non-operating revenue (expenses)	1,205	808	52	2,065
Operating transfers in	12,518	2,055	4,010	18,583
Operating transfers out	(44,652)	(14,227)	(890)	(59,769)
Operating transfers out to primary government	-	-	-	-
Residual equity transfers	(4,505)	(500)	512	(4,493)
Retirement of revenue bonds principal	-	-	-	-
Interest payments under bonds	-	-	-	-
Draws under capital grant facility	-	-	-	-
Increase in cash advances for Hoover Uprating Project	-	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	$ (35,453)	$ (11,864)	$ 3,684	$ (43,633)

The Notes to the Financial Statements are an integral part of this statement.

COMPONENT UNITS PROPRIETARY AND FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ (2,154)	$ (14,938)
17,301	38,820
-	45,843
(5,876)	(5,876)
7,688	7,688
15	15
19,128	86,490
(39,453)	(30,619)
-	4
-	94
-	418
-	(5,535)
(1,288)	(651)
(487)	4
3,013	3,137
(2,195)	(26,128)
868	(1,467)
-	(1,911)
-	6,157
-	(105)
-	(1,046)
1,921	2,805
2,815	5,996
194	346
(1,178)	16,636
793	782
(34,997)	(31,083)
(18,023)	40,469
(885)	(904)
(222)	1,843
-	18,583
-	(59,769)
(21)	(21)
-	(4,493)
(5,280)	(5,280)
(7,282)	(7,282)
35,649	35,649
(135)	(135)
$ 21,824	$ (21,809)

(Continued)

STATE OF ARIZONA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NON-EXPENDABLE TRUST FUNDS
AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	NON-EXPENDABLE TRUST	PRIMARY GOVERNMENT
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	$ (2,303)	$ (17,862)	$ (155)	$ (20,320)
Retirement of revenue bonds principal	-	-	-	-
Proceeds from sale of fixed assets	-	448	6,214	6,662
Interest payments under certificates of participation or bonds	(517)	-	-	(517)
Principal payments under leases and installment purchases	(2,339)	-	-	(2,339)
Proceeds in funds received by trustee	162	-	-	162
Discount on bonds issued / defeased	-	-	-	-
Pari-mutuel racing receipts	400	-	-	400
Contributions from (to) other Funds	(500)	1,998	-	1,498
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,097)	(15,416)	6,059	(14,454)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	142,902	-	115,378	258,280
Purchase of investments	(154,712)	-	(168,558)	(323,270)
Interest and dividends on investments	2,304	185	-	2,489
Change in cash collateral received from securities lending transactions	(10,964)	-	-	(10,964)
Change in long-term funds held by trustee	555	-	-	555
Net Cash Provided (Used) by Investing Activities	(19,915)	185	(53,180)	(72,910)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,034)	(310)	(65,161)	(72,505)
Cash and Cash Equivalents - Beginning, as restated	111,803	78,910	151,176	341,889
Cash and Cash Equivalents - Ending	$ 104,769	$ 78,600	$ 86,015	$ 269,384
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED BALANCE SHEET				
Cash and Cash Equivalents - Ending	$ 104,769	$ 78,600	$ 86,015	$ 269,384
Long-term investments	225,351	-	886,187	1,111,538
Cash held by trustee	-	-	-	-
Cash and investments - Combining Balance Sheet:				
Expendable Trust Funds	-	-	1,019,806	1,019,806
Pension Trust Funds	-	-	30,673,983	30,673,983
Investment Trust Funds	-	-	2,757,008	2,757,008
Agency Funds	-	-	3,146,493	3,146,493
Cash and Investments - Combined Balance Sheet	$ 330,120	$ 78,600	$ 38,569,492	$ 38,978,212
NON-CASH CAPITAL AND FINANCING ACTIVITIES				
Donated equipment	$ 21	$ -	$ -	$ 21
Net fixed assets transferred to Enterprise Funds	12,657	-	-	12,657
Total Non-cash Capital and Financing Activities	$ 12,678	$ -	$ -	$ 12,678
RESTATEMENT OF BEGINNING CASH AND CASH EQUIVALENTS				
Cash and cash equivalents, June 30, 1998	$ 111,544	$ 78,910	$ 151,176	$ 341,630
Reclassification of Veteran Services State Home for Veterans Fund	259	-	-	259
Addition of Water Infrastructure Finance Authority to reporting entity	-	-	-	-
Cash and cash equivalents, July 1, 1998, as restated	$ 111,803	$ 78,910	$ 151,176	$ 341,889

The Notes to the Financial Statements are an integral part of this statement.

COMPONENT UNITS PROPRIETARY AND FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ (24,219)	$ (44,539)
(1,985)	(1,985)
-	6,662
-	(517)
-	(2,339)
88	250
83	83
-	400
-	1,498
(26,033)	(40,487)
28,708	286,988
-	(323,270)
7,128	9,617
-	(10,964)
11,187	11,742
47,023	(25,887)
24,791	(47,714)
69,005	410,894
$ 93,796	$ 363,180
$ 93,796	$ 363,180
89,211	1,200,749
(7,417)	(7,417)
-	1,019,806
-	30,673,983
-	2,757,008
-	3,146,493
$ 175,590	$ 39,153,802
$ -	$ 21
-	12,657
$ -	$ 12,678
$ 59,697	$ 401,327
-	259
9,308	9,308
$ 69,005	$ 410,894

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS	CORRECTIONS OFFICER	TOTAL
ADDITIONS:					
Member contributions	$ 179,087	$ 51,685	$ 2,970	$ 24,409	$ 258,151
Employer contributions	179,087	44,384	3,941	17,110	244,522
Member reimbursements	46,171	-	-	-	46,171
Investment income:					
Net appreciation in fair value of investments	2,474,779	588,828	43,840	83,922	3,191,369
Interest income	223,901	96,591	6,701	12,945	340,138
Dividends	154,223	37,186	2,824	5,197	199,430
Real estate	8,432	-	-	-	8,432
Other	5,579	-	-	-	5,579
Total Investment Income	2,866,914	722,605	53,365	102,064	3,744,948
Security lending activities:					
Securities lending income	47,293	44,588	3,261	6,282	101,424
Borrower rebates	-	(42,949)	(3,135)	(6,053)	(52,137)
Agents share of income	-	(574)	(44)	(80)	(698)
Interest expense	(41,782)	-	-	-	(41,782)
Net Security Lending Income	5,511	1,065	82	149	6,807
Less: Investment Expenses	(24,105)	(300)	(22)	(44)	(24,471)
Net Investment Income	2,848,320	723,370	53,425	102,169	3,727,284
Transfers in	-	668	48	-	716
Total Additions	3,252,665	820,107	60,384	143,688	4,276,844
DEDUCTIONS:					
Retirement and disability benefits	696,341	124,826	11,907	8,864	841,938
Death benefits	11,485	-	-	-	11,485
Refunds to withdrawing members	26,108	3,318	169	9,044	38,639
Administrative expense	12,234	625	60	348	13,267
Operating transfers out	6,352	1,053	85	462	7,952
Other	2,811	-	-	-	2,811
Total Deductions	755,331	129,822	12,221	18,718	916,092
Net Increase in Plan Net Assets	2,497,334	690,285	48,163	124,970	3,360,752
Net Assets Held in Trust for Pension Benefits:					
Beginning of year	19,929,748	4,151,364	311,329	571,261	24,963,702
End of year	$ 22,427,082	$ 4,841,649	$ 359,492	$ 696,231	$ 28,324,454

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUNDS
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL GOVERNMENT	TOTAL
REVENUES				
Interest income	$ 11,469	$ 113,779	$ 9,750	$ 134,998
Net increase (decrease) in fair value	(863)	(1,791)	11	(2,643)
Total Revenues	10,606	111,988	9,761	132,355
EXPENSES				
Management fees	155	1,683	157	1,995
Total Expenses	155	1,683	157	1,995
Net Investment Income	10,451	110,305	9,604	130,360
DISTRIBUTIONS TO PARTICIPANTS				
Distributions paid and payable	(10,451)	(110,305)	(9,604)	(130,360)
SHARE TRANSACTIONS AT NET ASSET VALUE OF $1.00				
Purchase of units	27,569	2,842,172	240,565	3,110,306
Reinvestment of interest	11,049	115,201	9,290	135,540
Sale of units	(48,935)	(2,477,796)	(181,799)	(2,708,530)
Net Increase (Decrease) in Net Assets From Share Transactions	(10,317)	479,577	68,056	537,316
Net Assets Held in Trust for Pool Participants:				
Beginning of year	197,608	1,899,069	139,880	2,236,557
End of year	$ 187,291	$ 2,378,646	$ 207,936	$ 2,773,873

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
UNIVERSITY FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	CURRENT OPERATING FUNDS				
	UNRESTRICTED				TOTALS
	GENERAL OPERATING FUNDS	DESIGNATED FUNDS	AUXILIARY ENTERPRISES FUNDS	RESTRICTED FUNDS	CURRENT OPERATING FUNDS
REVENUES AND OTHER ADDITIONS					
Unrestricted current revenues	$ 253,545	$ 288,940	$ 208,254	$ -	$ 750,739
Tuition and fees	-	-	-	234	234
Governmental grants and contracts	-	-	-	362,530	362,530
Private gifts, grants and contracts	-	-	-	95,722	95,722
Investment and endowment income	-	-	-	7,069	7,069
Net increase (decrease) in fair value of investments	-	-	-	-	-
Additions to plant facilities including $85,689 charged to current funds expenditures and ownership transfers of $6,161	-	-	-	-	-
Retirement of indebtedness including $209 charged to current funds expenditures	-	-	-	-	-
Other additions	-	-	-	960	960
Total Revenues and Other Additions	253,545	288,940	208,254	466,515	1,217,254
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	909,427	195,007	-	398,799	1,503,233
Auxiliary enterprises expenditures	-	-	175,872	-	175,872
Indirect costs recovered	-	-	-	65,178	65,178
Cancellation of loans and provision for bad debts	-	-	-	-	-
Administrative and collection costs	-	-	-	-	-
Expended for plant facilities including expenditures not capitalized of $6,709	-	-	-	-	-
Interest on indebtedness, including $76 capitalized as construction in progress	-	-	-	-	-
Disposal of plant facilities	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
Other deductions	-	-	-	832	832
Total Expenditures and Other Deductions	909,427	195,007	175,872	464,809	1,745,115
TRANSFERS AMONG FUNDS AND ADDITIONS (DEDUCTIONS)					
State General Fund appropriations	722,033	-	-	1,086	723,119
Mandatory loan fund and matching grants	-	(255)	-	232	(23)
Mandatory debt indenture requirements	(510)	(48,063)	(16,060)	(94)	(64,727)
Other mandatory	(59,902)	(2,927)	(325)	2,437	(60,717)
Voluntary, net	496	(15,542)	(10,620)	(1,185)	(26,851)
Net Transfers Among Funds	662,117	(66,787)	(27,005)	2,476	570,801
Net Increase (Decrease) for the Year	6,235	27,146	5,377	4,182	42,940
Beginning Fund Balances	17,188	101,146	45,206	48,946	212,486
Ending Fund Balances	$ 23,423	$ 128,292	$ 50,583	$ 53,128	$ 255,426

The Notes to the Financial Statements are an integral part of this statement.

NON-OPERATING FUNDS						TOTALS
		PLANT FUNDS				
STUDENT LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	UNEXPENDED PLANT FUNDS	DEBT SERVICE FUNDS	INVESTMENT IN PLANT	TOTAL PLANT FUNDS	ALL FUNDS (MEMORANDUM ONLY)
$ -	$ -	$ -	$ -	$ -	$ -	$ 750,739
-	875	-	679	-	679	1,788
285	33	2,075	48	-	2,123	364,971
31	2,468	7,008	-	14,248	21,256	119,477
290	6,578	849	2,555	-	3,404	17,341
-	6,180	21	(8)	-	13	6,193
-	-	-	-	156,544	156,544	156,544
-	-	-	-	35,591	35,591	35,591
924	960	8,647	437	4,900	13,984	16,828
1,530	17,094	18,600	3,711	211,283	233,594	1,469,472
-	-	-	-	-	-	1,503,233
-	-	-	-	-	-	175,872
47	-	-	-	-	-	65,225
945	-	-	-	-	-	945
248	-	-	101	-	101	349
-	-	71,327	-	-	71,327	71,327
-	-	-	39,365	-	39,365	39,365
-	-	-	-	71,358	71,358	71,358
-	-	-	35,382	-	35,382	35,382
-	198	4,191	434	-	4,625	5,655
1,240	198	75,518	75,282	71,358	222,158	1,968,711
50	195	39,222	-	-	39,222	762,586
23	-	-	-	-	-	-
-	-	(881)	65,608	-	64,727	-
22	-	85	5,631	-	5,716	(54,979)
(242)	12,499	31,988	4	(17,398)	14,594	-
(147)	12,694	70,414	71,243	(17,398)	124,259	707,607
143	29,590	13,496	(328)	122,527	135,695	208,368
35,644	190,325	55,687	27,790	2,203,093	2,286,570	2,725,025
$ 35,787	$ 219,915	$ 69,183	$ 27,462	$ 2,325,620	$ 2,422,265	$ 2,933,393

STATE OF ARIZONA
COMBINED STATEMENT OF CURRENT OPERATING FUNDS
REVENUES, EXPENDITURES AND OTHER CHANGES
UNIVERSITY FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	UNRESTRICTED FUNDS				
	GENERAL OPERATING FUNDS	DESIGNATED FUNDS	AUXILIARY ENTERPRISES FUNDS	TOTAL UNRESTRICTED FUNDS	RESTRICTED FUNDS
REVENUES					
Tuition and fees	$ 247,818	$ 140,292	$ 7,965	$ 396,075	$ 207
Governmental grants and contracts	3,331	60,148	138	63,617	301,104
Private gifts, grants and contracts	-	24,769	8,687	33,456	82,863
Investment and endowment income	953	18,221	325	19,499	6,091
Net (decrease) in fair value of investments	-	(387)	-	(387)	-
Sales and services of auxiliary enterprises	-	-	186,991	186,991	-
Internal services	-	-	3,915	3,915	-
Other	1,443	45,897	233	47,573	7,737
Total Revenues	253,545	288,940	208,254	750,739	398,002
EXPENDITURES					
Educational and general:					
Instruction	413,013	60,492	-	473,505	25,606
Research	61,194	16,484	-	77,678	228,159
Public service	20,058	8,293	-	28,351	54,415
Academic support	145,520	20,110	-	165,630	1,432
Student services	43,231	17,922	-	61,153	4,830
Institutional support	89,057	39,748	-	128,805	883
Operation and maintenance of plant	85,180	7,702	-	92,882	16
Scholarships and fellowships	52,174	24,256	-	76,430	83,458
Total Educational and General Expenditures	909,427	195,007	-	1,104,434	398,799
Auxiliary enterprises	-	-	175,872	175,872	-
Total Expenditures	909,427	195,007	175,872	1,280,306	398,799
MANDATORY TRANSFERS					
Debt indenture requirements	(510)	(48,063)	(16,060)	(64,633)	(94)
Loan fund and matching grants	-	(255)	-	(255)	232
Other mandatory	(59,902)	(2,927)	(325)	(63,154)	2,437
Total Net Mandatory Transfers	(60,412)	(51,245)	(16,385)	(128,042)	2,575
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)					
State General Fund appropriations	722,033	-	-	722,033	910
Restricted receipts over transfers to revenues	-	-	-	-	3,511
Voluntary transfers, net	496	(15,542)	(10,620)	(25,666)	(1,185)
Other	-	-	-	-	(832)
Total Other Transfers and Additions (Deductions)	722,529	(15,542)	(10,620)	696,367	2,404
Net Increase in Fund Balances	$ 6,235	$ 27,146	$ 5,377	$ 38,758	$ 4,182

The Notes to the Financial Statements are an integral part of this statement.

	TOTALS CURRENT OPERATING FUNDS
$	396,282
	364,721
	116,319
	25,590
	(387)
	186,991
	3,915
	55,310
	1,148,741
	499,111
	305,837
	82,766
	167,062
	65,983
	129,688
	92,898
	159,888
	1,503,233
	175,872
	1,679,105
	(64,727)
	(23)
	(60,717)
	(125,467)
	722,943
	3,511
	(26,851)
	(832)
	698,771
$	42,940

STATE OF ARIZONA
STATEMENTS OF OPERATIONS
AND CHANGES IN POLICYHOLDERS' SURPLUS
COMPONENT UNIT
STATE COMPENSATION FUND
FOR THE YEAR ENDED DECEMBER 31, 1998
(Reported on Statutory Basis of Accounting)
(Expressed in Thousands)

	NON-GAAP BASIS
Premiums earned	$ 206,370
Compensation and medical benefits incurred	206,844
Loss expenses incurred	32,281
Underwriting and administrative expenses	19,936
Taxes and fees	3,673
Total Expenses	262,734
Net underwriting loss	(56,364)
Investment income	163,263
Investment expense	(4,865)
Net investment income	158,398
Other Income	7,854
NCCI assigned risk pool income	197
Net income before policyholders' dividends	110,085
Provision for policyholders' dividends	(81,500)
Net Income	$ 28,585

STATEMENT OF CHANGES
IN POLICYHOLDERS' SURPLUS

Balance, beginning of year	$ 272,715
Net income	28,585
Change in non-admitted assets	173
Net unrealized capital gains	18,934
Balance, end of year	$ 320,407

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
COMPONENT UNIT
STATE COMPENSATION FUND
FOR THE YEAR ENDED DECEMBER 31, 1998
(Reported on Statutory Basis of Accounting)
(Expressed in Thousands)

	NON-GAAP BASIS
Premiums collected net of reinsurance	$ 213,121
Loss and loss adjustment expenses paid	(180,850)
Underwriting expenses paid	(24,697)
Cash from underwriting	7,574
Investment income	95,344
Other expense	(527)
Dividends paid to policyholders	(73,290)
Net cash from operations	29,101
Proceeds from investments sold, matured or repaid:	
Equity securities	211,785
Bonds and certificates	312,516
Mortgage loans	8,090
Total investment proceeds	532,391
Change in NCCI pool liability	(1,406)
Other sources	621
Total cash from underwriting, operations and other sources	560,707
Cost of investments acquired:	
Equity securities	(239,422)
Bonds and certificates	(296,024)
Real estate	(169)
Mortgage loans	(18,152)
Total cash applied for investments acquired	(553,767)
Net Increase in Cash and Cash Equivalents	6,940
Cash and Cash Equivalents - Beginning	24,370
Cash and Cash Equivalents - Ending	$ 31,310
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED BALANCE SHEET	
Cash and Cash Equivalents - Ending	$ 31,310
Long-term investments	2,104,375
Cash and Investments of Combined Balance Sheet	$ 2,135,685

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the State of Arizona (the State) have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units, except for the State Compensation Fund, which is prepared on a statutory basis of accounting.

The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. GASB's Codification of Governmental Accounting and Financial Reporting Standards documents these principles. The State's significant accounting policies are as follows:

Amounts in the "Total - Memorandum Only" columns in the accompanying financial statements represent a summation of the combined financial statement line items. These are presented for analytical purposes only. Consequently, amounts shown in the "Total - Memorandum Only" columns are not comparable to a consolidation, and they do not represent the total resources available, total liabilities and fund balances or total revenues and expenditures/expenses of the State. Interfund eliminations have not been made in the aggregation of this data.

All financial information of the reporting entity is for the fiscal year ended June 30, 1999, except for the State Compensation Fund. The State Compensation Fund's financial information is for the calendar year ended December 31, 1998.

B. FINANCIAL REPORTING ENTITY

The accompanying financial statements include financial transactions of all funds, account groups, elected offices, agencies, boards, commissions and authorities. The State has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

As required by generally accepted accounting principles, these financial statements present the State of Arizona (the primary government) and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

The State reporting entity does not include counties, municipalities, school districts, community colleges, the Central Arizona Water Conservation District or other political subdivisions of the State over which the State exercises little, if any, financial accountability.

1. Blended Component Units

The following component units have been presented as blended component units because the component units' governing body is substantially the same as the governing body of the State, or the component unit provides services almost entirely to the primary government. Consequently, they are reported as part of the State and blended into the fiduciary funds.

* Arizona State Retirement System (ASRS) - The ASRS is a cost-sharing, multiple-employer, public employee retirement system that provides for retirement, health insurance premium benefits, and death and survivor benefits for employees of the State and employees of participating political subdivisions and school districts. ASRS is governed by a seven-member board that is appointed by the Governor and approved by the Senate to serve three-year terms.

* Public Safety Personnel Retirement System (PSPRS) - The PSPRS is an agent, multiple-employer, public employee retirement system that benefits fire fighters and police officers employed by the State and its political subdivisions. The PSPRS is jointly administered by the Fund Manager and 162 Local Boards. The Fund Manager is a five-member board of which three members are appointed by the Governor and two members are appointed by the State Legislature. All members serve a fixed three-year term. Each eligible group participating in the system has a five member Local Board. All members serve a fixed four-year term.

* Elected Officials' Retirement Plan (EORP) - The EORP is a cost-sharing, multiple-employer, public employee retirement plan that benefits all State and county elected officials and judges (except La Paz County elected officials), and certain elected city officials. The EORP is administered by a five-member board of which three members are appointed by the Governor and two members are appointed by the State Legislature. All members serve a fixed three-year term.

* Corrections Officer Retirement Plan (CORP) - The CORP is an agent, multiple-employer, public employee retirement plan that benefits county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections. The CORP is jointly administered by the Fund Manager of the PSPRS and 12 Local Boards. The Fund Manager is a five-member board. Three members are appointed by the Governor and two members are appointed by the State Legislature. Each employer participating in the CORP has a five member Local Board. All members serve a fixed four-year term.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Discretely Presented Component Units

The State Compensation Fund, University Medical Center, the Arizona Power Authority and the Water Infrastructure Finance Authority are component units that are legally separate from the State, but are either financially accountable to the State, and/or the State is able to impose its will on the organizations.

The Component Unit - Proprietary and Fiduciary Fund Types column of the combined financial statements includes the financial data of the University Medical Center, the Arizona Power Authority and the Water Infrastructure Finance Authority. The State Compensation Fund is presented separately because it is reported on a non-GAAP basis. Individual component unit disclosures are reflected throughout the notes to these financial statements. Separately issued independent audit reports may be obtained from the addresses presented below.

* State Compensation Fund - The State Compensation Fund was established by the Legislature for the purpose of insuring employers against liability for workers' compensation; occupational disease compensation; and medical, surgical and hospital benefits. The State Compensation Fund is governed by a board of directors that consists of five members appointed by the Governor for staggered terms of five years and annually the Governor shall appoint a chairman from among the board members. The State is required by statute to review and approve the operating and capital outlay budget of the State Compensation Fund.

  State Compensation Fund
  3031 North 2nd Street
  Phoenix, Arizona 85012
  (602) 631-2000

* University Medical Center (the Center) - The Center is a 365-bed, general acute care, teaching medical facility in Tucson, Arizona. The Center is the primary teaching hospital for the College of Medicine of the University of Arizona. In 1984, the Arizona Legislature passed a bill that enabled the Arizona Board of Regents to convey the Center to a private not-for-profit, tax-exempt corporation. Although an autonomous entity was created, the teaching missions and research alliances with the University of Arizona and the State of Arizona firmly remained with the Center. Appointments of members of the Board of Directors are confirmed by the Arizona Board of Regents. The Arizona Legislature has limited both the number of Regents and the number of State employees allowed to serve on the Board of Directors.

  The University Medical Center
  1650 East Ft. Lowell, Suite 102
  Tucson, Arizona 85719
  (520) 694-2700

* Arizona Power Authority (APA) - The APA purchases the State's allocation of Hoover power and resells it to Arizona entities that are eligible purchasers under federal and state laws. Hoover power is produced by the Bureau of Reclamation at the federally owned Boulder Canyon Project hydropower plant, located near Las Vegas, Nevada. The APA is governed by a commission of five electors appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among its membership for two-year terms.

  The Arizona Power Authority
  1810 West Adams Street
  Phoenix, Arizona 85007-2697
  (602) 542-4263

* Water Infrastructure Finance Authority (WIFA) - The WIFA is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act) which required the State to establish the Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. WIFA has entered into an agreement this year with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act.. The WIFA is governed by a twelve-member board of directors appointed by the Governor. The directors serve staggered terms of five years.

  The Water Infrastructure Finance Authority
  202 East Earll Drive, Suite 480
  Phoenix, Arizona 85012
  (602) 230-9770

3. Joint Venture

As discussed in more detail in Note 14, the State participates in a joint venture. The State does not include the financial activities of this organization in its financial statements in conformity with GASB Statement 14.

4. Related Organizations

The following related organizations, for which the State appoints a voting majority of their governing boards, are not part of the reporting entity based on the criteria of GASB Statement No. 14 and therefore, financial information pertaining to these entities has not been included.

* Arizona Health Facilities Authority (the Authority) - The Authority was established to issue tax-exempt bonds for the purpose of reducing health care costs and improving health care for Arizona residents by providing less expensive financing for health care institutions. Proceeds from bond issues are loaned to various qualifying nonprofit health care institutions. The health care institutions reimburse the Authority for expenses for issuance of the bonds, pay fees

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve staggered terms of seven years.

* Social Service Contractors Indemnity Pool (the Pool) - The Pool is a nonprofit corporation that provides property and liability insurance coverage to social service agencies contracted by the State of Arizona. The Pool was capitalized with a one million dollar appropriation from the State, which is reflected as restricted capital in the Pool's financial statements.

* Arizona Technology Development Authority - The Arizona Technology Development Authority was established to stimulate the creation and expansion of technology related business activity, to promote new business growth in the State and provide improved employment opportunities in technology related fields. The Arizona Technology Development Authority is governed by a board of directors that consists of the Governor, the Director of the Department of Commerce, and an additional five members appointed by the Governor. The directors serve staggered terms of five years.

* Arizona International Development Authority - The Arizona International Development Authority was established to facilitate the development of international trade or commerce between this state and other countries. The Arizona International Development Authority is governed by a board of directors consisting of seven members appointed by the governor. The directors serve terms of five years.

C. FUND STRUCTURE

The State uses approximately 1,900 accounting funds. Each accounting fund is a separate accounting entity with its own self-balancing set of accounts that represent its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual accounting funds depending upon the purposes for which the State collects revenues or expends resources, and the means by which the State uses to control spending activities. For the purpose of preparing financial statements, the accounting funds have been combined by fund type. Transactions between funds within a fund type, if any, have not been eliminated. Account groups are used to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The four major fund types, two account groups and component units are described below:

1. Governmental Fund Types

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds or Component Units).

2. Proprietary Fund Types

Enterprise Funds account for operations (a) financed and operated in a manner similar to private business enterprises, where the State intends that the cost of providing goods or services to the general public be financed or recovered primarily through service charges, or (b) where the State decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds account for the financing of goods and services provided by one State department or agency to other State departments or agencies on a cost-reimbursement basis.

Only those applicable FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, are applied unless those pronouncements conflict with or contradict GASB pronouncements.

3. Fiduciary Fund Types

Expendable Trust Funds account for assets held by the State in a trustee capacity, where principal may be expended in the course of the funds' designated operations.

Non-Expendable Trust Funds account for assets held by the State in a trustee capacity, where the State must preserve the principal intact, and may expend only income derived from the principal for the funds' designated operations.

Pension Trust Funds account for transactions of the four public employee retirement systems for which the State acts as trustee.

Investment Trust Funds account for transactions by local governments and political subdivisions that elect to participate in the State Treasurer's investment pools. The Treasurer acts as Trustee for the original deposits made into the investment pools.

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, where the State acts as an agent for distribution to other governmental units or organizations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. University Funds

University Funds account for transactions of the State's three universities. For State reporting purposes, the University Funds combine the balances of each university's separate financial statements.

The University Funds include:

* Current Operating Funds account for unrestricted resources over which the governing board retains full control in achieving the institutions' purposes and restricted resources that may be utilized only in accordance with externally restricted purposes.
* Loan funds account for loans made to assist students in financing their education.
* Endowment and similar funds account for private gifts that specify income purpose and principal protection and assets for which the universities act in a custodial manner.
* Plant funds account for institutional property investment, acquisition, renewal, replacement and debt service.

5. General Fixed Assets Account Group

Fixed assets used in Governmental and Expendable Trust Fund operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in the individual funds. Fixed assets related to Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds and Component Units are accounted for in those funds.

6. General Long-Term Debt Account Group

The General Long-Term Debt Account Group reflects long-term liabilities expected to be retired with Governmental and Expendable Trust Fund resources. Liabilities related to Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds and Component Units are accounted for in those funds.

7. Component Units

The Component Units include proprietary and fiduciary type organizations that are legally separate from the State but are considered part of the reporting entity.

D. BASIS OF ACCOUNTING

1. Overview

The measurement focus of the financial statements for the Governmental Funds and Expendable Trust Funds is the flow of current financial resources, measured by the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and other financial resources are recognized in the accounting period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. Expenditures and other uses of financial resources are recognized when the related fund liability is incurred.

The measurement focus of the financial statements for the Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, Investment Trust Funds and Proprietary and Fiduciary Fund Types Component Units is the flow of economic resources, measured by the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Agency Funds are custodial in nature, and therefore, do not present results of operations or have a measurement focus.

State Compensation Fund's financial statements are prepared on a statutory basis in accordance with accounting practices prescribed or permitted by the Arizona Department of Insurance. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. These accounting practices differ in certain respects from generally accepted accounting principles. Under generally accepted accounting principles, the following apply:

* Non-admitted assets less applicable allowance accounts are restored to the balance sheet. Non-admitted assets include premiums receivable outstanding more than 90 days, office furniture and equipment, prepaid expenses, advances and real estate valuation allowances.
* Investment in debt securities are classified as either trading, available-for-sale or held-to-maturity. The specific accounting treatment applied to these securities is dependent upon that classification.
* Land and buildings are not classified as investments.
* Reinsurance recoverables are reclassified to assets from the liability for incurred but unpaid losses and accrued loss adjustment expense.
* Imputed rental income for office space occupied by the State Compensation Fund is eliminated against imputed rental expense.
* Policy acquisition costs are deferred over the policy life.

The measurement focus of the financial statements of the University Funds is the flow of total financial resources measured by the accrual basis of accounting in accordance with generally accepted accounting principles prescribed by the American Institute of Certified Public Accountants.

2. Revenue Recognition - Governmental Fund Types

The State recognizes tax revenues and related receivables when the taxpayer incurs the corresponding liability, and the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

payment has been demanded, provided the State can reasonably estimate the amount of revenue to which it is entitled and can reasonably establish its collectibility, i.e., earned and collected or expected to be collected within the next 31 days. Otherwise, the State defers recognizing revenue until cash is received. Major revenues determined to be susceptible to accrual include income, sales, unemployment, and motor vehicle and fuel taxes. Any receivables not collected within the next 31 days are recorded as deferred revenue.

The State estimates the amount of taxes that will ultimately be uncollectible and excludes these from revenues. Tax refunds are based upon actual payments made within 31 days after fiscal year end and are recorded as a liability and a reduction in related revenue.

Property taxes are levied on the third Monday in August. The first half of collections are due October 1 and the second half are due the following March 1. Any property tax collections received within 31 days after fiscal year end are recognized as revenue. The lien date is the first day of January each year.

Federal grants and reimbursements are recorded as intergovernmental receivables and revenues when the State incurs the related expenditures or expenses, provided the State has complied with the terms of the grant award. Revenues from Federal entitlement awards are recorded as intergovernmental receivables and revenues when entitlement occurs.

Revenue from non-refundable licenses, permits and similar fees is recorded when cash is received. Other revenues are recorded when earned, or when the State becomes entitled to the revenue and can establish its collectibility; otherwise, the State defers recognition of revenue until cash is received.

3. Expenditure Recognition - Governmental Fund Types

The State recognizes expenditures and related liabilities in the accounting period the liability is incurred to the extent it is expected to be paid within the next 12 months, as a result of receiving property, goods or services, or when the beneficiary of a State program becomes entitled to receive benefits. Exceptions to this rule are:

* The State does not recognize a liability or the related expenditure for expected future welfare, health and similar benefits if the beneficiary is entitled to benefits solely because of a current condition.
* The State recognizes interest in the Debt Service Funds to the extent it becomes payable during the current fiscal year.
* The State recognizes compensated absences in the period they are paid. The amounts earned and to be paid in the future are recorded in the General Long-Term Debt Account Group.
* The State recognizes a liability and the related expenditures for the accrued insurance losses of the Arizona Health Care Cost Containment System as they are incurred, regardless of when these expenditures are actually paid.

The portion of the liabilities that is expected to be paid beyond 12 months is recorded in the General Long-Term Debt Account Group.

E. VALUATION POLICIES

1. Cash and Cash Equivalents

Cash and cash equivalents include undeposited receipts, petty cash, bank accounts, non-negotiable certificates of deposit and collateral investment pools related to securities lending transactions.

2. Investments

Investments are stated at fair value, except for the Arizona Power Authority and the State Compensation Fund (non-GAAP basis) Component Units which are reported at amortized cost and the Treasurer's Custodial Securities of the Agency Funds which are reported at par value.

3. Inventories

Inventories consist of expendable supplies held for consumption in all funds, and merchandise intended for sale to customers in the Proprietary Funds and University Funds. Inventories are stated at cost, using the first-in, first-out method. In Governmental Funds, inventories are accounted for using the purchase method. Under this method, inventories are recorded as an expenditure as they are purchased. However, the Arizona Department of Transportation State Highway Fund, reported as a Special Revenue Fund, is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

4. General Fixed Assets

Fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as capital outlay or other expenditures in the funds from which the expenditures are made. Such assets are capitalized at historical cost. Donated fixed assets are recorded at estimated fair market value on the date of contribution. Public domain (infrastructure) general fixed assets consisting of roads and bridges are not capitalized, as these assets are immovable and of value only to the government. The State does not record depreciation on general fixed assets.

5. Proprietary and Similar Trust Fund Fixed Assets

Fixed assets acquired in Proprietary and Similar Trust Funds are capitalized at historical cost. Donated fixed assets are recorded at estimated fair market value on the date of contribution. Depreciation is charged against operations in Proprietary and Similar Trust Funds on a straight-line basis over the estimated useful lives of the assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The State is trustee for approximately 9.4 million acres of land acquired through U.S. Government land grants. The State acquired a substantial portion of this land at no cost to the State, and its fair market value has not been reliably estimated. Accordingly, this land is not reported on the accompanying financial statements. A portion of the land that the State is trustee for has been sold and the buyers of the land have defaulted on the loans. The value of this land has been recorded at the sales price and properly included in the Non-Expendable Trust Funds fixed assets.

The State holds land and other assets in trust for the benefit of its public schools and other public institutions. The trust requires the principal to be held intact with only interest and rentals of property distributed for current operations. Accordingly, certain revenues, including gains on the sale of property, are added to principal rather than distributed for current operations. In addition, the State Constitution provides that certain State revenues be added to the principal of the trust. In 1999, the trust distributed all monies eligible for distribution to aid the State's educational system and other public institutions.

6. University Fixed Assets

Fixed assets capitalized in the University Funds are recorded at historical cost. Donated fixed assets are recorded at fair market value on the date of contribution. The University Funds do not record depreciation on fixed assets.

7. Leases

The State has entered into capital lease agreements for land, buildings, machinery and equipment. Although the terms of these leases vary, most are subject to annual appropriations by the Legislature. If a legislative appropriation is reasonably assured and the intent of the State is to continue the lease, a capital lease is considered non-cancelable for financial reporting purposes.

Assets acquired through capital leases are valued at cost. Capital leases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group. Capital leases for the Proprietary, Similar Trust Funds and University Funds are reported in those funds as a long-term obligation, together with the related assets.

The State also leases land, buildings and equipment under operating leases. The related assets are not capitalized. Operating lease obligations are recorded when incurred as rental expenditures or expenses of the related funds.

F. BUDGETS AND BUDGETARY ACCOUNTING

1. Budget Process

Annually (or biennially for certain small agencies), no later than five days after the regular session of the Legislature convenes, the Governor must submit to the Legislature for approval a proposed operating and capital outlay budget for the succeeding fiscal year. Beginning with fiscal year 2000, the Legislature will approve biennial budgets for all State agencies. The Legislature must approve the budget by passing a general and a capital outlay appropriation bill. The budget can be amended throughout the year by special legislative appropriations and/or budget transfers. The State's budgeted expenditures may not exceed seven percent of aggregate personal income as estimated by the Economic Estimates Commission as stated in the State Constitution.

Revenues are not budgeted. Consequently, the combined Statement of Revenues and Expenditures Appropriation (Budget) to Actual-Budgetary Basis presents a comparison of budget to actual expenditures since that is the only comparison of the legally adopted budget with actual data that can be made.

Funds that have legal budgets include the General Fund, Special Revenue Funds (except for minor funds); portions of Capital Projects Funds, State appropriations to the Exposition and State Fair (an Enterprise Fund), certain Expendable, Non-Expendable and Pension Trust Funds, and State appropriations to the University Funds. However, Federal resources included in these Funds are not appropriated. State agencies are responsible for exercising budgetary control and ensuring that expenditures do not exceed appropriations. The State Department of Administration - Financial Services Division exercises oversight and does not disburse funds in excess of appropriations.

The State prepares its annual budget on the cash basis of accounting. Encumbrances as of June 30 can be liquidated during a four-week administrative period known as the 13th month. Anticipated revenue is estimated on the cash basis. The statements comparing budgeted and actual results are presented on the budgetary (or legal) basis. The State prepares a separate document, "Annual Financial Report For the Fiscal Year Ended June 30, 1999," that presents the individual funds' comparisons at the level of budgetary control, and is available from the State Department of Administration, Financial Services Division, General Accounting Office.

2. Encumbrance Accounting

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation, is an extension of formal budgetary control. The Department of Administration - Financial Services Division is authorized to draw warrants against the available balances of appropriations for one month after the end of the fiscal year in order to pay for goods or services received but not paid for at the close of the fiscal year.

Encumbrances outstanding more than one month after year end for goods or services that were not received before year end are canceled. These can only be paid upon a subsequent appropriation by the Legislature. Encumbrances for goods and services received before year end can be paid in the subsequent year with the previous year appropriations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

One month after year end, the remaining available appropriations lapse and no further payments may be made except for continuing appropriations allowed under Arizona Revised Statutes (ARS) §35-190. Continuing appropriations primarily relate to multi-year commitments and automatically renew without further legislative action until altered or revoked.

G. STATE COMPENSATION FUND

Other significant accounting policies relating to the State Compensation Fund (non-GAAP basis) include:

1. Policyholders' Dividends

The Board of Directors of the State Compensation Fund makes provisions for dividends to policyholders based on the Fund's overall experience. Dividends are paid to policyholders that meet premium volume and loss experience criteria established by the Board. Dividends recorded at December 31, 1998 include $81.50 million declared in March 1999. This is a permitted statutory accounting practice.

2. Reinsurance

The State Compensation Fund is assigned certain policyholders which participate in the National Council on Compensation Insurance (NCCI) assigned risk pool. All premiums collected on such policies are ceded to NCCI. All losses incurred by the Fund on such policies are recoverable from NCCI. In addition, the Fund is assigned a pro rata allocation of the liability for loss and loss expenses incurred by all NCCI policyholders in the State. Losses of other policyholders in excess of specified amounts are recoverable from other reinsurers. Contracts with these reinsurers do not relieve the Fund of its obligation to policyholders.

NOTE 2. RECONCILIATION OF FUND EQUITY - BUDGETARY BASIS TO GAAP

The accompanying "Combined Statement of Revenues and Expenditures - Appropriation (Budget) to Actual - Budgetary Basis - General, Special Revenue and Capital Projects Funds" presents comparisons of the legally adopted budget with actual data on a budgetary basis. Appropriations authorized in one fund and transferred, by legislation, to another fund have not been eliminated. Budget amounts are not presented for revenues, as the State does not have a legally adopted budget for revenues.

Actual amounts are presented for revenues, transfers in and other financing sources/uses on the "Combined Statement of Revenues and Expenditures - Appropriation (Budget) to Actual - Budgetary Basis - General, Special Revenue and Capital Projects Funds." Since the budgetary and GAAP presentations of actual data differ, a reconciliation of the two bases follows (amounts expressed in thousands):

	General Fund Actual	Special Revenue Funds Actual	Capital Projects Funds Actual
Cash Basis Fund Balance, June 30, 1999	$ 1,023,741	$ 1,174,544	$ 61,674
Basis of Accounting Differences:			
Increases to Fund Balance:			
Taxes receivable, net of allowances	389,814	11,580	2,008
Interest receivable	10,083	1,480	102
Other receivables	-	58,719	-
Other assets	(4,734)	(441)	3
Due from other Funds	8,852	3,753	-
Inventory	-	2,512	-
Decreases to Fund Balance:			
Accounts payable	17,084	64,685	38
Due to local governments	45,385	-	-
Due to others	24,841	4,000	10
Due to other Funds	213	-	-
Deferred revenue	16,298	-	-
Accrued insurance losses	32,969	-	-
Total GAAP Basis Fund Balance, June 30, 1999	$ 1,290,966	$ 1,183,462	$ 63,739

Appropriation and corresponding budgetary-basis expenditure amounts of Enterprise, Internal Service, Expendable Trust, Non-Expendable Trust and Pension Trust Funds were $321.416 and $278.249 million, respectively. No appropriation was over-expended.

NOTE 3. CASH AND INVESTMENTS

A. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are under the control of the State Treasurer, the retirement systems or other administrative bodies. The State invests any temporary surpluses of cash pursuant to ARS §35-312 Investment of Treasury Monies, ARS §35-313 Investment of Trust Monies or other statutory requirements. Investments include negotiable certificates of deposit, repurchase agreements, commercial paper, bankers' acceptances and obligations issued or guaranteed by the United States Government or its agencies. Cash deposited with the State Treasurer by State agencies with a statutory authorization to invest and all general fund monies is invested by the Treasurer in a pooled fund. Any interest earned is allocated monthly into each respective fund based on average daily cash balances.

The State Treasurer invests in short-term securities and other investments. Provisions of Arizona law restrict these investments to obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposits, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities.

The State Treasurer also invests in various mortgage-backed securities for seventeen of the twenty-one investment pools it manages. These securities are reported at fair value on the balance sheet. In addition, they are reported in aggregate, as U.S. Government securities. The securities are purchased to diversify the State's exposure to maturity and credit risks while providing for enhanced yields. The credit risk associated with holding these securities is minimal since all securities are rated AAA by both Standard and Poor's and/or Moody's rating service. The market risk associated with holding these securities is linked to maturity risk in that as interest rates rise, the fair value of these securities will fall and prepayment of principal balances will decelerate. When interest rates fall, the fair value of these securities will rise and prepayment of principal balances will accelerate. The mortgage-backed securities are authorized under ARS §35-313.

Statutes enacted by the Legislature authorize the retirement systems to make investments in accordance with the "Prudent Man" rule. This rule imposes the responsibility of making investments with the judgment and care that men of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital. Within this broad framework, the retirement systems have chosen to invest in short-term securities and repurchase agreements, obligations of the U.S. Government and its agencies, corporate bonds, common and preferred stocks and mortgages. The Statutes also place certain restrictions on the investment fund portfolios of the retirement systems.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires the following disclosures.

Investments maintained by the State Treasurer are reported at fair value based upon an independent outside pricing service. Investments not valued by the pricing service, with a maturity of 91 days or more and all investments with a maturity of 90 days or less that were held at the beginning of the current fiscal year are valued using a market price solicited from the selling broker or a second outside pricing service. All investments with a remaining maturity of 90 days or less, that have no available market price, and were not held at the beginning of the current fiscal year, are valued using amortized cost. If different amortized cost values exist, the weighted average amortized cost is given to like investments.

The State Treasurer also maintains external investment pools (Central Arizona Water Conservation District, Local Government Investment Pool and Local Government Investment Pool-Government) with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pools is reviewed monthly by the State Board of Investment in accordance ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. The State Treasurer only makes investments in external investment pools that are registered with the Securities and Exchange Commission.

The State Treasurer is not an involuntary participant in another entity's external investment pool.

The State Treasurer is not aware of any involuntary participation of local governments in the State's external investment pools. Participants meeting the criteria established under ARS §35-316 are eligible to participate in the pools and are not required to disclose the reason for requesting the account.

The investments of the State Treasurer's Custodial Securities, an Agency Fund, are recorded at par value. The investments are held by the State Treasurer for state agencies that perform a business compliance function.

The investments of the Arizona Exposition and State Fair are reported at fair value.

The Arizona State Retirement System investments are reported at fair value. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

quoted by independent brokers at current exchange rates. Commercial mortgages have been valued on an amortized cost basis, which approximates fair value. Short-term investments are reported at cost, which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

The Public Safety Personnel, Elected Officials' and Corrections Officer Retirement Systems investments are reported at fair value. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by an outside pricing service. Investments that do not have an established market are reported at estimated fair value.

The investments of the Universities are reported at fair value. Fair value is determined from quoted market prices. Non-participating interest bearing contracts are valued at cost.

The University Medical Center's short-term investments are reported at cost, which approximates fair value. Long-term investments are reported at fair value as determined by quoted market prices.

The investments of the Arizona Power Authority are reported at amortized cost, which approximates fair value.

The investments of the Water Infrastructure Finance Authority in Guaranteed Investment Contracts are stated at cost, since they are non-participating contracts. The other investments are stated at fair value which approximates cost.

The investments of the State Compensation Fund (non-GAAP basis) are primarily valued at amortized cost. Investments in bonds, certificates of participation and mortgages are reported at amortized cost. Investments in stocks are valued at fair value based upon National Association of Insurance Commissioners publications or from an outside pricing service.

There is no income from investments associated with one fund that is assigned to another fund.

B. UNEMPLOYMENT INSURANCE

ARS §23-703 requires that unemployment insurance contributions from Arizona employers be deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States that is established and maintained pursuant to Section 1104 of the Social Security Act. The cash on deposit in the trust fund account is pooled and invested. Interest earned from investments purchased with such pooled monies is deposited in the trust fund account.

C. RESTRICTED ASSETS

University Funds report as restricted assets cash and investments for bond and loan retirement funds (including advance refunding of bonds), as well as for maintenance and replacement reserves. The Endowment and Restricted Funds also include restricted assets.

D. COLLATERAL AND INSURANCE

The State requires that deposits and investments with financial institutions be entirely covered by Federal depository insurance or, alternatively, collateralized with surety equal to at least 100% (102% for the Treasurer) of the deposits so collateralized. Cash deposited with banks is collateralized based on bank balances. Surety collateralization includes U.S. government obligations, State obligations, obligations of counties and municipalities within the State, and certain other securities.

E. DEPOSITS

At June 30, 1999, the carrying amount of the State's deposits for the Primary Government was a deficit of $182.092 million and $7.417 million for the Component Units. At June 30, 1999, the bank balance was $148.878 million for the Primary Government and $7.417 million for the Component Units. The cash deficits resulted from the State Treasurer not reducing investments until the servicing bank presented warrants for payment. For the Primary Government bank balances, $9.230 million was collateralized by Federal depository insurance. Of the remaining balance, $68.240 million was collateralized by securities held by the bank's trust division or agent in the State's name in book-entry form, and $71.408 million was either not collateralized or was collateralized with securities held in the bank's custodial account with the Federal Reserve in the bank's name in book-entry form. For the Component Units bank balances, the $7.417 million was either not collateralized or was collateralized with securities held in the bank's custodial account with the Federal Reserve in the bank's name in book-entry form.

F. INVESTMENTS

The following tables summarize the credit risk of the State's investments (expressed in thousands). Category A includes investments that are insured or registered, or for which securities are held by the State or the State's agent in the State's name. Category B includes uninsured and unregistered investments for which securities are held by the counterparty's agent or trust department in the State's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty, or by its agent or trust department but not in the State's name.

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

Primary Government

Type of Deposit or Investment	Category A	Category B	Category C	Reported Amount
U.S. Government securities	$ 7,545,821	$ -	$ 17,830	$ 7,563,651
Corporate stocks	16,944,323	2,757,255	-	19,701,578
Corporate debt	8,845,768	46	-	8,845,814
State and local government securities	445,499	-	-	445,499
Repurchase agreements	350,083	-	-	350,083
Other investments	168,950	9,215	75,662	253,827
Subtotal	$ 34,300,444	$ 2,766,516	$ 93,492	37,160,452
United States Treasury Pooled Investment				919,819
Guaranteed Investment Contracts				7,395
Mutual Funds				69,463
Mutual Fund - Benchmark Portfolio				7,268
Other Investments - not categorized				125,898
Short-Term Investment Fund				1,694,259
Mortgages				215,448
Real Estate				41,827
Joint Venture				14,000
Collateral Investment Pool				1,133,806
Investments Held by Broker/Dealers Under Security Loan Program:				
U.S. Government Obligations				538,982
Corporate Obligations - Domestic				49,987
Preferred and Common Stock - Domestic				65,243
Preferred and Common Stock - Foreign				391,022
Component Units Investment in Primary Government's Investment Pool				(42,008)
Total Investments				42,392,861
Deposits				(182,092)
Total Cash and Investments				$ 42,210,769

Component Units

Type of Deposit or Investment	Category A	Category B	Category C	Reported Amount
U.S. Government securities	$ 985	$ -	$ -	$ 985
Repurchase agreements	7,147	-	-	7,147
Other investments	103	135,276	13,987	149,366
Subtotal	$ 8,235	$ 135,276	$ 13,987	157,498
Investment in Primary Government's Investment Pool				42,008
Total Investments				199,506
Deposits				7,417
Total Cash and Investments				$ 206,923

At June 30, 1999, the State had no commitments to resell securities under yield maintenance agreements.

During the year ended June 30, 1999, the State did not make significant investments in types of investments beyond those enumerated in the tables above.

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

State Compensation Fund (Non-GAAP Basis)

The following table (expressed in thousands) summarizes the types of investments of the State Compensation Fund. The State Compensation Fund provided no information as to the amount of insurance or collateralization of their deposits and investments.

Type of Deposit or Investment	Carrying Amount
U.S. Government securities	$ 801,492
Corporate debt	560,760
Corporate stock	238,136
Foreign Securities	11,245
Other investments	492,742
Deposits	31,310
Total Cash and Investments	$ 2,135,685

G. SECURITIES LENDING

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions* requires reporting cash received as collateral on securities lending transactions and investments made with that cash as assets. A corresponding liability is also recorded for such securities lending transactions.

1. Industrial Commission

State statutes and the Industrial Commission (the Commission) policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent losses to the securities lending agent. The custodial bank, Northern Trust, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lenders exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 1999. Northern Trust's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned for collateral that may include cash, U.S. Government securities and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105% of the market value of the securities loaned plus accrued interest. The market value at June 30, 1999, for loaned securities collateralized by cash and non-cash collateral was $37.138 million and $2.142 million, respectively. As part of the securities lending transactions, Northern Trust received cash and non-cash collateral valued at $38.453 million and $2.218 million, respectively at June 30, 1999. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral received on the securities lent.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans are twenty-three days and cash open collateral is invested in a short-term investment pool, the Core Collateral Section, which had an average weighted maturity of twenty-eight days as of June 30, 1999. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. Cash open loans can be terminated on demand by either lender or borrower and there was no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Balance Sheet. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 1999, the Commission had $38.453 million outstanding as payable for securities lending.

2. Arizona State Retirement System

The Arizona State Retirement System (ASRS) is permitted by Title 38, Chapter 5, Article 2 of the Arizona Revised Statutes to enter into securities lending transactions. The ASRS enters into agreements with brokers to loan securities and have the same securities redelivered at a later date. It is the policy of the ASRS to receive as collateral at least 102% of the market value of the loaned securities and maintains collateral at no less than 100% for the duration of the loan. During fiscal year 1998, statutes were amended to allow for other than cash collateral. The ASRS records the collateral received and the same amount as an obligation for the securities on loan. Any cash collateral received is invested in short-term investments. The ASRS receives a negotiated fee for its loan activities. Investments made with cash collateral received are classified as an asset on the Combining Statement of Plan Net Assets. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 1999, the ASRS had $1.09 billion outstanding as payable for securities on loan.

Due to the flow of securities to and from transfer agents and the security loan program, securities occasionally cannot be delivered for a sale or received for a purchase, resulting in a "failed" transaction. Securities with trade dates in June and settlement dates in July result in "outstanding" transactions. Since these securities have contractually changed ownership,

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

receivables and payables result from these transactions. Such transactions resulted in a receivable for securities sold of $100.375 million and a payable for securities purchased of $376.542 million at June 30, 1999.

3. Public Safety Personnel Retirement System, Elected Officials' Retirement Plan and Corrections Officer Retirement Plan

The Public Safety Personnel Retirement System (PSPRS), Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP) are permitted by Title 38, Chapter 5, Articles 3, 4 and 6 of the Arizona Revised Statutes to enter into securities lending transactions. The PSPRS, EORP and CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, EORP and CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, EORP and CORP require collateral of at least 102% of the market value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 1999, the fair value of securities on loan were (expressed in millions):

PSPRS	$ 886.760
EORP	75.170
CORP	110.618

The PSPRS, EORP and CORP receive a negotiated fee for its loan activities and is indemnified for broker default by the securities lending agent. The PSPRS, EORP and CORP participate in a collateral investment pool. All security loans can be terminated on demand by either the pool participants or the borrower. All term loans have a matched collateral investment. Cash collateral received for open loans is invested for a longer term, however, at least 20% of total collateral investments must be invested on any overnight basis and at least 30% of total collateral investments must be invested with a maturity of seven days or less. Additionally, no more than 20% of the total collateral investments will be invested in instruments maturing in over 91 days. In lending securities, investments of cash collateral for open loans as of June 30, 1999, are not matched in maturity and have a weighted average maturity of eight days. The PSPRS, EORP and CORP have no credit risks under this program and have experienced no defaults or losses on these loans. Investments made with cash collateral received are classified as an asset on the Combining Statement of Plan Net Assets. A corresponding liability is recorded as the PSPRS, EORP and CORP must return the cash collateral to the borrower upon expiration of the loan. At June 30, 1999, the PSPRS, EORP and CORP had $904.878, $76.868 and $113.607 million outstanding, respectively, as payable for securities on loan.

4. State Compensation Fund (Non-GAAP Basis)

The State Compensation Fund (the Fund) participates in a securities lending program in which securities are loaned to approved broker/dealers for specified periods of time. All securities on loan are collateralized by cash or cash equivalents of at least 102% of their fair value. The collateral is maintained by the Fund's investment trustee who is not a party to the security lending agreement. The Fund had invested securities on loan with a fair value of approximately $341.257 million and a reported value of $320.896 million at December 31, 1998. The Fund is not reporting on its Combined Balance Sheet the assets and liabilities required by GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions.*

H. DERIVATIVES

Derivatives are financial instruments (securities or contracts) whose value is dependent on reference rates or indices such as stock or bond prices, interest rates or currency exchange rates. ASRS internal investment managers use derivatives to hedge currency risk, reduce transaction costs, obtain market exposure, and enhance returns.

The principle categories of derivatives employed and their uses during the year were as follows:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investment denominated in foreign currencies.
Futures	Reduce transaction costs; obtain market exposure; enhance returns.
SWAPS	Interest rate risk management; enhance returns.

Generally, derivatives are subject to both market risk and counterparty risk. The derivatives utilized by ASRS internal investment managers typically have no greater market risk than their physical counterparts, and in many cases are offset by exposure elsewhere in the portfolio.

The ASRS believes that it is unlikely that any of the derivatives used by its internal investment managers could have a material adverse effect on the financial conditions of the System.

NOTE 3. CASH AND INVESTMENTS (CONCLUDED)

I. STATE TREASURER'S SEPARATELY ISSUED FINANCIAL STATEMENTS

The State Treasurer issues a separately published Annual Financial Report. The report provides additional information relating to the State Treasurer's total investing activities and the Internal and External Participants of the Investment Trust Funds. The Investment Trust Funds report on the activities of the Local Government Investment Pools and Central Arizona Water Conservation District Investment Account. A copy of the State Treasurer's Office Annual Financial Report can be obtained from their office at 1700 W. Washington, Phoenix, Arizona 85007-2812. The Treasurer's financial statements are audited by the Auditor General's Office.

NOTE 4. RECEIVABLES / DEFERRED REVENUE

A. TAXES RECEIVABLE

Taxes receivable represent amounts owed by taxpayers for the 1998 and prior calendar years including assessments for underpayment, penalties and interest totaling approximately $140.255 million at June 30, 1999. Taxes receivable are accrued when they are earned, measurable, and available.

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, payments with final returns and assessments that relate to income earned through June 30, 1999. Sales and motor vehicle and fuel tax receivable represent amounts that are earned by the State in the fiscal period ended June 30, 1999, but not collected until the following month.

The following table summarizes taxes receivable at June 30, 1999 (expressed in thousands):

Type of Tax	General Fund	Special Revenue Funds	Capital Projects Funds	Trust and Agency Funds
Sales	$ 290,369	$ 1,412	$ -	$ -
Income - individual and corporate	331,260	-	-	-
Insurance premium	21,497	-	-	-
Motor vehicle and fuel	3,964	165,884	-	-
Luxury	5,257	10,168	2,009	-
Unemployment	-	-	-	46,409
Allowance for uncollectible taxes	(178,698)	-	-	-
Net Taxes Receivable	$ 473,649	$ 177,464	$ 2,009	$ 46,409

B. DEFERRED REVENUE

Deferred revenue consists of payments to the State for goods and services not yet rendered. Delinquent taxes not collected within 31 days after June 30, 1999, have been deferred and, consequently, are not included in current year revenues. Federal grant revenue not available in the next 31 days is deferred. Funds with deferred revenue of $10 million or more consist of the following (expressed in thousands):

Revenue Source	General Fund	Trust and Agency Funds	University Funds	State Compensation Fund
Taxes	$ 68,459	$ -	$ -	$ -
Land leases	8,332	16,934	-	-
Student services	-	-	121,861	-
Public assistance overpayments	15,265	-	-	-
Food stamps	17,805	-	-	-
Federal grants and reimbursements	16,917	-	-	-
Unemployment Insurance contributions	-	12,413	-	-
Policyholders' advance premiums	-	-	-	38,263
Other	11,090	320	-	-
Total	$ 137,868	$ 29,667	$ 121,861	$ 38,263

NOTE 5. GOVERNMENTAL RECEIVABLES / PAYABLES

A. GOVERNMENTAL RECEIVABLES

Due from U.S. Government of $199.840 million in the General Fund represents receivables from Federal financial assistance programs and $45.978 million in the Special Revenue Funds consists principally of amounts owed to the Arizona Department of Transportation for reimbursement of highway construction costs from the U.S. Department of Transportation.

B. GOVERNMENTAL PAYABLES

Due to local governments in the General Fund and Special Revenue Funds ($127.497 and $136.034 million, respectively) represents primarily sales and motor vehicle and fuel tax collections that have not yet been remitted by the State to the respective local governments as of June 30, 1999.

NOTE 6. FIXED ASSETS

A. GENERAL FIXED ASSETS ACCOUNT GROUP

A summary of changes in the general fixed assets account group follows (expressed in thousands):

Asset	Balance July 1, 1998	Adjustments	Additions	Deletions	Balance June 30, 1999
Land	$ 67,301	$ 12,311	$ 12,777	$ 5,491	$ 86,898
Buildings and improvements	931,136	(23,176)	50,979	287	958,652
Other improvements	83,648	10,755	3,383	60	97,726
Furniture, vehicles and equipment	305,305	1,774	43,651	18,465	332,265
Subtotal	1,387,390	1,664	110,790	24,303	1,475,541
Construction in progress	227,422	24,826	61,820	40,897	273,171
Total General Fixed Assets	$ 1,614,812	$ 26,490	$ 172,610	$ 65,200	$ 1,748,712

The July 1, 1998 balance was adjusted as a result of previously unreported and misclassified fixed assets.

B. PROPRIETARY AND SIMILAR TRUST FUNDS FIXED ASSETS

Proprietary and Similar Trust Funds fixed assets consisted of the following as of June 30, 1999 (expressed in thousands):

	Primary Government				
Asset	Enterprise Funds	Internal Service Funds	Similar Trust Funds	Component Units	Combined Total
Land	$ 5,867	$ -	$ 8,984	$ -	$ 14,851
Buildings and improvements	52,994	2,912	1,925	143,280	201,111
Other improvements	3,577	-	224	-	3,801
Furniture, vehicles and equipment	21,286	164,666	1,076	106,750	293,778
Construction in progress	37	53	450	2,885	3,425
Subtotal	83,761	167,631	12,659	252,915	516,966
Less: accumulated depreciation	(36,930)	(105,235)	(1,189)	(133,554)	(276,908)
Total	$ 46,831	$ 62,396	$ 11,470	$ 119,361	$ 240,058

Fixed assets of the Proprietary and Similar Trust Funds are capitalized in the fund in which they are utilized and depreciated on a straight line basis over their useful lives. The estimated lives of fixed assets are as follows:

	Years
Building and improvements	40
Other improvements	15
Furniture, vehicles and equipment	5-15

NOTE 6. FIXED ASSETS (CONCLUDED)

State Compensation Fund's fixed assets consisted of the following as of December 31, 1998 (reported on non-GAAP basis, expressed in thousands):

Asset	Balance December 31, 1998
Furniture, vehicles and equipment	$ 8,610
Less: accumulated depreciation	(6,925)
Total	$ 1,685

C. UNIVERSITY FIXED ASSETS

The University fixed assets consist of the following (expressed in thousands):

Asset	Balance June 30, 1999
Land	$ 204,763
Buildings and improvements	1,762,003
Other improvements	33,024
Furniture, vehicles and equipment	988,383
Subtotal	2,988,173
Construction in progress	43,728
Total	$ 3,031,901

Universities' construction projects included in construction in progress have a total estimated cost of $239.022 million, a cost to date of $43.728 million and a remaining cost to complete of $195.294 million.

In October 1996, the Federal Government conveyed to Arizona State University a portion of the former Williams Air Force Base which is used by the University as the ASU East Campus. The property transfer is conditional upon the use of the property for educational purposes in accordance with the terms of the deed. The appraised fair value of the property conveyed was $56.4 million and consisted of 61 multi-purpose use buildings and 177 single family residences valued at $45.3 million, site improvements valued at $3.5 million and 279.1 acres of land valued at $7.6 million.

Arizona State University recorded this conveyed property at the time of title transfer at its appraised value. This was the initial conveyance in what the University anticipates to be a two-phase transfer of title to the property it occupies as the East Campus. The appraised fair value of the property yet to be conveyed is $33.3 million and includes 4 multi-purpose use buildings, 390 single family residences and 312.9 acres of land. The University will record these remaining assets at the time they are conveyed by the Federal Government. As of September 3, 1999, only the initial conveyance totaling $56.4 million had occurred.

NOTE 7. RETIREMENT PLANS

The State contributes to the four plans described below. The four plans are considered part of the State's financial reporting entity and are included in the State's financial statements as Pension Trust Funds.

A. PLAN DESCRIPTIONS

The State participates in the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS), the Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP). Benefits are established by state statutes and provide retirement, death, long-term disability, survivor and health insurance premium benefits to State employees, public school employees and employees of counties, municipalities and certain other State political subdivisions.

The **ASRS** is a cost-sharing, multiple-employer defined benefit pension plan that benefits employees of the State, its political subdivisions and public schools. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2.

The **PSPRS** is an agent, multiple-employer defined benefit pension plan that benefits fire fighters and police officers employed by the State or certain local governments. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund

NOTE 7. RETIREMENT PLANS (CONTINUED)

Manager, and 166 local boards according to the provisions of ARS Title 38, Chapter 5, Article 4.

The **EORP** is a cost-sharing, multiple-employer defined benefit pension plan that benefits all elected State and county officials and judges (except La Paz County elected officials), and certain elected city officials. The EORP is governed by the Fund Manager of PSPRS according to the provisions of ARS Title 38, Chapter 5, Article 3.

The **CORP** is an agent, multiple-employer defined benefit pension plan that benefits town, city and county detention officers and certain employees of the Arizona Department of Corrections and the Arizona Department of Juvenile Corrections. The CORP is governed by the Fund Manager of PSPRS according to the provisions of ARS Title 38, Chapter 5, Article 6.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

Arizona State Retirement System
3300 North Central Avenue
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2000 or (800) 621-3778

Public Safety Personnel Retirement System, Elected Officials' Retirement Plan or the Corrections Officer Retirement Plan
1020 East Missouri Avenue
Phoenix, Arizona 85014
(602) 255-5575

The number of participating government employers as of June 30, 1999, are shown below:

Employer	ASRS	PSPRS	EORP	CORP
Cities and towns	62	118	16	-
Counties and county agencies	14	19	15	10
State	1	1	1	1
Special districts	41	25	-	-
School districts	221	-	-	-
Charter schools	79	-	-	-
Community college districts	10	-	-	-

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As part of the Pension Trust Funds, the financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

For the ASRS, investments are reported at fair value and cost. Security transactions and any resulting gains or losses are accounted for on a trade-date basis. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Commercial mortgages have been valued on an amortized cost basis which approximates fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible.

Short-term investments are reported at cost which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment degree of risk. Net investment income includes net appreciation in fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

For the PSPRS, EORP and the CORP, investments are reported at fair value and at cost. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by one of the world's largest and most prominent fixed-income broker/dealers. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized as earned.

Statutes enacted by the Arizona State Legislature restrict the four retirement plans from investing more than five percent of each plan's total assets in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of or fully guaranteed by the United States Government. As of June 30, 1999, the four retirement plans are in compliance with the state statutes.

NOTE 7. RETIREMENT PLANS (CONTINUED)

C. FUNDING POLICY

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the Arizona Revised Statutes. These contribution requirements may be amended by the Arizona State Legislature.

Cost-sharing plans - For the year ended June 30, 1999, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 3.34 percent (2.85 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The State's contributions to ASRS for the years ended June 30, 1999, 1998 and 1997 were $42.112, $41.685, and $40.622 million, respectively, for the primary government and $727, $735 and $12 thousand, respectively, for the component units, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7.00 percent of the members' annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 8.9 percent of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 1999, 1998 and 1997 were $1.180 million, $681 thousand and $338 thousand, respectively, which were equal to the required contributions for the year.

Agent plans - For the year ended June 30, 1999, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 0.00 - 10.74 percent. Active CORP members were required by statute to contribute 8.50 percent of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 1.87 - 3.72 percent.

D. ANNUAL PENSION COST

The State's annual pension cost and related actuarial data for the two agent, multiple-employer defined benefit pension plans for the year ended June 30, 1999, follows (expressed in thousands):

	PSPRS	CORP
Contribution rates:		
State	0.00%-10.74%	1.87%-3.72%
Plan members	7.65%	8.50%
Annual pension cost	$4,348	$13,500
Contribution made	$4,348	$13,500
Actuarial valuation date	6/30/99	6/30/99
Actuarial cost method	entry age	entry age
Actuarial assumptions:		
Investment rate of return	9%	9%
Projected salary increases/	6.5%-9.5%	5.5%-9.5%
includes inflation at	5.5%	5.5%
Cost-of-living adjustment	none	none
Amortization method	level percent open	level percent open
Remaining amortization period from 7/1/99	Open 20 years	Open 20 years
Asset valuation method	4-year smoothed market	4-year smoothed market

NOTE 7. RETIREMENT PLANS (CONTINUED)

E. TREND INFORMATION

An analysis of the most recent actuarial valuations for each of the agent, multiple-employer defined benefit plans is as follows (expressed in thousands):

	Contributions Required and Contributions Made			
	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	6/30/99	$ 4,348	100%	$ 0
	6/30/98	5,345	100	0
	6/30/97	5,528	100	0
CORP	6/30/99	13,500	100%	0
	6/30/98	13,355	100	0
	6/30/97	12,945	100	0

F. FUNDING PROGRESS

The following schedule describes the funding progress for each of the agent, multiple-employer defined benefit plans for the fiscal year as indicated (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Excess	Funded Ratio	Annual Covered Payroll	Funding Excess as Percentage of Covered Payroll
PSPRS	6/30/99	$ 497,050	$ 397,860	$ 99,190	124.9%	$ 61,994	160.0%
	6/30/98	436,811	363,284	73,527	120.2	56,711	129.7
	6/30/97	405,428	340,714	64,714	119.0	53,737	120.4
CORP	6/30/99	457,404	345,460	111,944	132.4	243,211	46.0%
	6/30/98	374,549	316,710	57,839	118.3	204,778	28.3
	6/30/97	303,962	272,513	31,449	111.5	193,952	16.2

There has been a significant benefit enhancement for CORP members. The benefit accrual rate was increased from 2.2% of the member's base salary to 2.5% for each year of credited service. This benefit change applies to members retiring subsequent to July 21, 1997, and may have a significant impact on the funding level for CORP. Beginning July 21, 1997, the member contribution rate increased to eight and one-half percent (8.50%) of salary.

G. UNIVERSITIES' DEFINED CONTRIBUTION PLANS

University faculty, academic professionals and administrative officers at the three universities (Arizona State University, Northern Arizona University, and University of Arizona) may select one of five retirement plans: the Arizona State Retirement System (ASRS), Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Services Company (Fidelity) or Aetna Life Insurance and Annuity Company (Aetna). The ASRS is a defined benefit plan (described above) and the other four plans are defined contribution plans. The four defined contribution plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. In addition, University of Arizona employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Eligible classified staff belong to the Arizona State Retirement System. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 1999, plan members and the three Universities were each required by statute to contribute an amount equal to seven percent of an employee's compensation, except for an 8.24 percent contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 1999, were as follows (expressed in thousands):

NOTE 7. RETIREMENT PLANS (CONCLUDED)

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	$ 20,257	$ 20,257	$ 40,514
VALIC	2,933	2,933	5,866
Fidelity	1,974	1,974	3,948
Aetna	751	751	1,502
ASRS	355	304	659

H. UNIVERSITY MEDICAL CENTER DEFINED CONTRIBUTION PLAN

The University Medical Center (UMC) has an Employee Pension Plan (the Plan) for employees of the UMC. The Plan is a defined contribution plan covering all employees of the UMC subject to minimum employment requirements, as defined in the Plan Agreement. The UMC makes contributions to the Plan in amounts equal to (a) 5.5 percent of total compensation plus (b) 5.4 percent of compensation in excess of 80 percent of the FICA wage base. Such contributions are allocated to each participant as defined in the Plan Agreement. Retirement plan expense, net of participant forfeitures was approximately $4.300 million for the year ended June 30, 1999.

I. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described, the ASRS makes available group health insurance coverage to eligible retired and disabled members and their dependents. Retired and disabled members of the ASRS, PSPRS, EORP and CORP may participate if they are no longer eligible for health insurance benefits through their former employer.

This program is administered in accordance with ARS §38-782 and §38-783. Health insurance premiums are withheld from benefit payments and remitted to health insurance carriers. Approximately 32,000 coverage agreements currently exist for retired and disabled members and their dependents. The ASRS remitted approximately $34.9 million to health insurance carriers for premium payments during the fiscal year.

NOTE 8. EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

1. Annual Leave

In general, State employees accrue vested annual leave at a variable rate based on years of service. An employee forfeits accumulated annual leave in excess of 240 hours at the end of a calendar year, unless the Director of the Department of Administration authorizes an exception. An employee who separates from State service is paid for all unused and unforfeited annual leave at the employee's rate of pay at the time of separation.

2. Compensatory Leave

Some employees accumulate compensatory leave for time worked over 40 hours per week. Compensatory leave is treated like annual leave except that the employee must use any compensatory leave before using annual leave.

B. SICK LEAVE

Sick leave includes any approved period of paid absence granted an employee due to illness, injury or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. Effective July 1, 1998, State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1500 hours upon retirement directly from State service. (See Note 15.D)

C. DEFERRED COMPENSATION PLAN

The State offers its employees a Deferred Compensation Plan (the Plan) established in accordance with Section 457 of the Internal Revenue Code. All assets and income of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. Assets of the Plan are administered by a private corporation under contract with the State. Consequently, the Plan's assets and liabilities are excluded from the State's financial statements.

NOTE 9. LONG-TERM DEBT

A. REVENUE BONDS

Primary Government

1. Arizona Department of Transportation

The Arizona Department of Transportation (ADOT) issued Highway Revenue Bonds in 1990, 1991, 1992 and 1993. These bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the State Highway Fund, a special revenue fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, to exceed $800 million.

The ADOT also issued Transportation Excise Tax Revenue Bonds in 1988, 1989, 1991, 1992, 1993, 1995 and 1998. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County.

Bonds payable are due in varying annual principal amounts plus varying semiannual interest amounts, except for the 1988 Series A Capital Appreciation Bonds, which are due in annual installments of $21.500 million in 2002 through 2004 with the balance of $8.500 million due in 2005.

Bonds aggregating approximately $405.800 million ($240.585 million of Highway Revenue Bonds and $165.215 million of Transportation Excise Tax Revenue Bonds, respectively) are subject to redemption prior to their maturity dates, at the option of the Transportation Board, in whole at any time, or in part at various interest payment dates. These bonds may be redeemed at various redemption prices ranging from 100 percent to 102 percent of principal, plus accrued interest to the date fixed for redemption. Bonds aggregating approximately $870.805 million are not subject to redemption prior to maturity.

The Bond Resolution adopted by the Transportation Board on July 25, 1986 established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating $70.064 million at June 30, 1999) were issued by Financial Guaranty Insurance Company, except for the 1989 Series A Subordinated Bonds and the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies, which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005 or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 1999, the carrying basis was $53.887 million. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of $73.000 million.

On July 16, 1998, the ADOT issued $174.545 million in Transportation Excise Tax Revenue Bonds (1998 Series A) to (i) advance refund portions of the Transportation Board's outstanding Subordinated Bonds, (ii) finance acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona and (iii) pay costs of issuing the 1998 Series Bonds. The 1998 Series A Bonds are due July 1, 1999 through 2005.

Net proceeds totaled $177.826 million (after receipt of $4.359 million of reoffering premium and payment of $1.078 million in underwriting fees). Net proceeds of $28.714 million were used to advance refund $27.390 million of the 1989 Series A, Subordinated Transportation Excise Tax Revenue Bonds (Refunded Bonds). State and Local Government securities were purchased with these proceeds and were deposited in an irrevocable trust with an escrow agent to provide for the partial future debt service payments on the above-referenced bonds. As a result, the Refunded Bonds will be considered defeased and the liability for these bonds will be removed from the General Long-Term Debt Account Group. The ADOT advance refunded the Refunded Bonds to reduce its total debt service payments over the next three years by $738 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $711 thousand.

In prior years, the ADOT refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government Securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded.

As of June 30, 1999, the principal balance of defeased, refunded bonds is $776.993 million, which accordingly is not included as a liability in the accompanying financial statements.

2. Universities

a. University of Arizona

Cash and securities on deposit with trustees, restricted for retirement of bonded indebtedness and renewals and replacements, are $358 thousand and $369 thousand respectively, at June 30, 1999, as required by the bond indentures. In addition, $18.147 million was held by trustees

NOTE 9. LONG-TERM DEBT (CONTINUED)

for payment of future construction costs, and at June 30, 1999, the University also directly held proceeds totaling $1.990 million of the 1998 System Revenue Bonds for payment of future construction costs.

In fiscal years 1977, 1990, 1992, 1993 and 1998, the University refunded in advance of maturity certain outstanding revenue bonds. At June 30, 1999, the outstanding principal balance of the refunded bonds was $102.260 million that will be paid by investments held in trust with a carrying value of $82.218 million. These amounts are not included in the accompanying financial statements.

b. Northern Arizona University

In prior years, the University defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in the sinking fund, in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 1999, $4.985 million of such bonds outstanding are considered defeased.

c. Arizona State University

In prior years, certain system revenue bonds of the University were in substance defeased through an advance refunding by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all refunded bonds outstanding at June 30, 1999, is $75.730 million.

The housing revenue bonds are payable from housing revenues as defined in the bond indentures. The Series 1992, 1992A and 1993 System Revenue Refunding Bonds, and the outstanding Series 1989 and 1991 System Revenue Bonds are payable from Main Campus tuition, fees, certain auxiliary enterprise revenues, and certain other revenues as defined in the bond indentures.

Securities and cash restricted for bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 1999, totaled $17.445 million.

Component Units

3. Arizona Power Authority

In prior years, Arizona Power Authority (APA) defeased various issues of bonds by purchasing United States government securities which were deposited in an irrevocable trust with an escrow agent to provide future debt service on the maturity dates defeased. As a result, these bonds are considered to be defeased and the liability has been removed from the Hoover Uprating Fund. Accordingly, these trust account assets and related liabilities are not included in the accompanying financial statements. As of June 30, 1999, $99.450 million of bonds outstanding are considered to be defeased.

The remaining bonds, totaling $68.945 million, bear interest rates from 4.9 % to 5.4 % are due serially from 2002 through 2017.

4. University Medical Center

In January 1991, the University Medical Center issued $50.655 million of Hospital Revenue Bonds (the Series 1991 Bonds). The proceeds of the Series 1991 Bonds were used for the construction of an imaging center, a 110 bed tower for expanded programs, an emergency room, a parking facility, and the expansion and renovation of the surgical suites and other existing facilities.

In March 1992, the University Medical Center issued $28.405 million of Hospital Revenue Bonds (the Series 1992 Bonds) and in May, 1993, the University Medical Center issued $54.750 million of Hospital Revenue Refunding Bonds (the Series 1993 Bonds). The proceeds of the Series 1992 Bonds and the Series 1993 Bonds were used to advance refund a portion of the Series 1986, 1987 and 1991 Bonds.

The University Medical Center is subject to certain financial covenants under the Master Trust Indenture (the Indenture), with which the Center is in compliance as of and for the year ended June 30, 1999. In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property.

The University Medical Center has established and maintains separate funds for borrowings not yet expended for construction. These funds are held by the trustee and are reflected in "Investments held by trustee" in the accompanying combined balance sheets, consisting principally of guaranteed investment contracts.

The bonds or other obligations of the University Medical Center do not constitute general obligations of the Arizona Board of Regents, the University of Arizona, the State of Arizona or any political subdivision thereof.

5. Water Infrastructure Finance Authority

The Water Infrastructure Finance Authority (WIFA) issued Financial Assistance Revenue Bonds in 1991, 1992, 1995, 1996, 1997 and 1998. WIFA also issued Capitalization Revenue Bonds in 1991, 1992, 1995, 1996 and 1997. The bonds are callable and interest is payable semiannually. The bonds are special obligations of the WIFA payable solely from and secured by the WIFA's assets. The bonds are not obligations, general, specific or otherwise, of the State or any other political subdivision thereof other than the WIFA.

NOTE 9. LONG-TERM DEBT (CONTINUED)

6. Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 1999 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Amount Authorized	Amount Issued	Outstanding Balance at June 30, 1999
Primary Government:						
Department of Transportation	1990-1998	2000-2011	3.90-8.80 %	$ 2,358,623	$ 2,358,623	$ 1,257,492
University Revenue Bonds	1961-1998	2000-2019	2.70-9.40	833,901	833,901	559,109
Proprietary and Fiduciary Fund Types						
Component Units:						
Arizona Power Authority	1993	2002-2017	4.90-5.40	68,945	68,945	67,433
University Medical Center	1991-1993	1999-2021	5.53-6.86	133,810	133,810	77,078
Water Infrastructure Finance Authority	1991-1998	2005-2017	2.90-6.55	158,930	158,930	144,656

Future debt service principal payments on revenue bond issues for fiscal years ended June 30 are summarized below (expressed in thousands):

	Principal						
	Primary Government			Proprietary and Fiduciary Fund Types Component Units			
Fiscal Year	ADOT	Universities	Total Primary Government	University Medical Center	Arizona Power Authority	Water Infrastructure Finance Authority	Total Component Units
2000	$ 157,540	$ 27,750	$ 185,290	$ 2,280	$ -	$ 6,080	$ 8,360
2001	156,030	27,640	183,670	2,420	-	6,585	9,005
2002	157,740	29,990	187,730	2,580	-	7,985	10,565
2003	165,085	31,710	196,795	2,715	1,450	8,075	12,240
2004	172,765	33,432	206,197	2,860	2,320	8,180	13,360
Thereafter	448,332	408,587	856,919	64,223	63,663	107,751	235,637
Total	$ 1,257,492	$ 559,109	$ 1,816,601	$ 77,078	$ 67,433	$ 144,656	$ 289,167

Principal and interest debt service payments on revenue bonds outstanding at June 30, 1999 are as follows (expressed in thousands):

	Annual Debt Service					
	Primary Government			Proprietary and Fiduciary Fund Types Component Units		
Fiscal Year	Total Principal	Total Interest	Total Primary Government	Total Principal	Total Interest	Total Component Units
2000	$ 185,290	$ 97,232	$ 282,522	$ 8,360	$ 15,620	$ 23,980
2001	183,670	87,023	270,693	9,005	15,186	24,191
2002	187,730	77,111	264,841	10,565	14,678	25,243
2003	196,795	67,999	264,794	12,240	14,151	26,391
2004	206,197	58,591	264,788	13,360	13,528	26,888
Thereafter	856,919	247,933	1,104,852	235,637	102,471	338,108
Total	$ 1,816,601	$ 635,889	$ 2,452,490	$ 289,167	$ 175,634	$ 464,801

Changes in Revenue Bonds for Fiscal Year 1999 are summarized below (expressed in thousands):

	Primary Government	Component Units	Total Bonds Outstanding
Balance at July 1, 1998, as restated	$ 1,842,569	$ 296,158	$ 2,138,727
New Bonds Issued	178,296	-	178,296
Bonds Retired	(204,264)	(6,991)	(211,255)
Balance at June 30, 1999	$ 1,816,601	$ 289,167	$ 2,105,768

NOTE 9. LONG-TERM DEBT (CONTINUED)

B. CERTIFICATES OF PARTICIPATION

The State has issued Certificates of Participation (COPs) to finance construction or improvements of office buildings that are primarily leased to State agencies. The COPs mature serially at six-month intervals. The State lease payments are made to a trustee. The lease provides that the obligation of the State to make lease payments is subject to annual appropriation by the State Legislature.

The State is recording the COPs at the outstanding balance less cash with trustee except for the Universities and the Industrial Commission that are recorded at the outstanding balance. The cash with trustee is a reserve for the COPs.

Capitalized interest costs include interest incurred during the construction of an asset.

The 1985 COPs for the Industrial Commission were issued to refund the 1984 certificates that were issued to finance the cost of acquiring and constructing a building. The lease agreement provides that the title will pass to the Industrial Commission at the end of the lease term, once the COPs are completely redeemed. The refunded amount was $17.500 million. This amount is considered paid and is not included in the outstanding amounts.

The February 1992, June 1992 and November 1992 (in part) COPs for the Department of Administration were issued to refund the August 1986, October 1988 and December 1986 certificates, respectively. The total amount refunded was $161.530 million. This amount is considered paid and is not included in the outstanding amounts.

The December 1993 COPs for the Department of Administration was issued to refund the December 1989 and October 1990 certificates. The total amount refunded was $31.815 million. This amount is considered paid and is not included in the outstanding amounts.

A summary of the COPs issued as of June 30, 1999, is as follows (expressed in thousands):

Project	Issue Date	Maturity Date	Interest Rates
Arizona State University:			
Towers Project	1991	2010	6.89 %
West Campus – Refinancing	1993	2009	5.18
Industrial Commission Special Fund	1985	2005	4.20 – 5.00
Department of Revenue/ Department of Economic Security	1992	2005	5.00 - 6.50
Capitol Centre/RTC	1992	2007	3.00 - 6.10
Arizona Municipal Financing Program	1992	2004	3.40 - 6.10
University of Arizona:			
Telecommunications	1991	2012	4.60 - 6.50
Educational	1992	2007	3.20 - 6.25
Residence Life	1994	2014	4.10 - 5.80
Maingate Admin.	1994	2024	4.25 - 6.00
Alumni Foundation	1997	2008	3.80 - 4.50
School for the Deaf and Blind / Game and Fish	1993	2011	2.75 - 5.00
Prisons*	1991	2005	4.50 - 6.40
AHCCCS	1994	2005	6.66

NOTE 9. LONG-TERM DEBT (CONTINUED)

Project	Amount Authorized and Issued	Outstanding Balance	Cash with Trustee	Net COP Liability
Arizona State University:				
Towers Project	$ 4,500	$ 3,520	$ 446	$ 3,074
West Campus - Refinancing	46,905	43,440	5,447	37,993
Industrial Commission Special Fund	17,500	10,800	3,177	7,623
Department of Revenue/				
Department of Economic Security	22,125	18,855	2	18,853
Capitol Centre/RTC	32,895	17,230	6	17,224
Arizona Municipal Financing Program	129,640	105,560	12,692	92,868
University of Arizona:				
Telecommunications	25,995	16,899	3,907	12,992
Educational	4,670	3,240	486	2,754
Residence Life	16,725	14,890	1,943	12,947
Maingate Admin.	16,170	15,385	1,224	14,161
Alumni Foundation	2,965	2,710	313	2,397
School for the Deaf and Blind/Game and Fish	31,250	23,970	2	23,968
Prisons *	55,080	42,055	5,041	37,014
AHCCCS	12,642	8,319	-	8,319
Total	$ 419,062	$ 326,873	$ 34,686	$ 292,187

* The Prisons issue was a sales-leaseback transaction involving two prison units that are a portion of the Eyman Complex at the Arizona State Prison in Florence, Arizona. The proceeds of the issue were used to reimburse the General Fund for the ENSCO settlement.

Principal and interest debt service requirements on COPs outstanding at June 30, 1999, are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service		
	Total Principal	Total Interest	Total Amount Required
2000	$ 20,970	$ 18,353	$ 39,323
2001	22,157	17,237	39,394
2002	23,559	16,028	39,587
2003	22,678	14,720	37,398
2004	23,922	13,444	37,366
Thereafter	213,587	57,518	271,105
Total	$ 326,873	$ 137,300	$ 464,173

Changes in COPs for Fiscal Year 1999 are summarized below (expressed in thousands):

Balance at July 1, 1998	$ 360,181
New COPs Issued	-
COPs Retired	(33,308)
Balance at June 30, 1999	$ 326,873

NOTE 9. LONG-TERM DEBT (CONTINUED)

C. LEASES AND INSTALLMENT PURCHASES

1. Leases

The total operating lease expenditures for the fiscal year-ended June 30, 1999, were $41.944 million for the primary government and $1.495 million for the Component Units. The future minimum lease payments for long-term operating leases as of June 30, 1999, are summarized below (expressed in thousands):

	Primary Government				
Fiscal Year	Governmental & Expendable Trust Funds	Proprietary Funds	University Funds	Component Units	Total
2000	$ 24,756	$ 57	$ 497	$ 1,342	$ 26,652
2001	18,905	57	121	849	19,932
2002	13,167	57	99	749	14,072
2003	7,169	57	70	507	7,803
2004	3,285	24	-	36	3,345
Thereafter	4,897	-	-	14	4,911
Total Future Minimum Payments	$ 72,179	$ 252	$ 787	$ 3,497	$ 76,715

Many operating leases are for buildings and land leased by State agencies. Although these leases are considered to be long-term, they are cancelable under certain circumstances.

* An agency must be able to cancel the lease if the monies are not appropriated to cover the lease expenditures.
* If an agency is ordered to move into State-owned property and a 60-day notice is given, the lease can be canceled without penalty.
* In situations where the use of the leased property is dependent on the use of Federal monies, the lease must be cancelable in the event Federal funds are no longer available.

The State has incurred capital leases for the acquisition of telephone systems, copy machines and other equipment.

The future minimum lease payments for long-term capital leases (all primary government) as of June 30, 1999, are summarized below (expressed in thousands):

Fiscal Year	General Long-Term Debt Account Group	University Funds	Total
2000	$ 1,537	$ 1,627	$ 3,164
2001	1,509	1,154	2,663
2002	1,494	879	2,373
2003	1,425	712	2,137
2004	1,174	439	1,613
Thereafter	6,263	1,058	7,321
Total Future Minimum Payments	13,402	5,869	19,271
Less: Interest and Executory Costs	3,085	938	4,023
Net Liability at June 30, 1999	$ 10,317	$ 4,931	$ 15,248

NOTE 9. LONG-TERM DEBT (CONCLUDED)

2. Installment Purchases

The State has installment purchase contracts payable for acquisitions of computer and other equipment. Installment purchases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group. Installment purchases for the Proprietary and University Funds are reported in those funds as a long-term obligation, together with the related assets.

The future minimum payments for installment purchases (all primary government) as of June 30, 1999, are summarized below (expressed in thousands):

Fiscal Year	General Long-Term Debt Account Group	Proprietary Funds	University Funds	Total
2000	$ 6,293	$ 11	$ 476	$ 6,780
2001	3,193	-	463	3,656
2002	1,740	-	442	2,182
2003	1,207	-	383	1,590
2004	418	-	9	427
Thereafter	-	-	653	653
Total Future Minimum Payments	12,851	11	2,426	15,288
Less: Interest and Executory Costs	945	-	270	1,215
Net Liability at June 30, 1999	$ 11,906	$ 11	$ 2,156	$ 14,073

3. Summary of Changes

A summary of the changes in capital leases and installment purchase obligations follows (expressed in thousands):

	Balance July 1, 1998	New Contracts	Principal Reduction	Balance June 30, 1999
General Long-Term Debt Account Group	$ 26,963	$ 5,490	$ 10,230	$ 22,223
Proprietary Funds	1,365	1	1,355	11
University Funds	6,458	3,190	2,561	7,087
Total	$ 34,786	$ 8,681	$ 14,146	$ 29,321

D. SUMMARY OF CHANGES IN THE GENERAL LONG-TERM DEBT ACCOUNT GROUP

The following is a summary of changes in the General Long-Term Debt Account Group (expressed in thousands):

Type of Debt	Balance July 1, 1998	Additions	Retirements	Balance June 30, 1999
Revenue Bonds	$ 1,257,156	$ 178,296	$ 177,960	$ 1,257,492
Certificates of Participation	224,193	116	26,063	198,246
Capital Leases	11,883	955	2,521	10,317
Installment Contracts	15,080	4,534	7,708	11,906
Subtotal	1,508,312	$ 183,901	$ 214,252	1,477,961
Compensated Absences	127,077			139,905
Total	$ 1,635,389			$ 1,617,866

NOTE 10. INTERFUND TRANSACTIONS

A. INTERFUND BALANCES AND OPERATING TRANSFERS

Interfund balances, as of June 30, 1999, and operating transfers, for the year ended June 30, 1999, are as follows:

Fund	Due From Other Funds	Due To Other Funds	Operating Transfer In	Operating Transfer Out
Primary Government:				
General Fund	$ 25,703	$ 20,968	$ 123,378	$ 973,249
Special Revenue Funds:				
General Government	8,701	6,479	23,060	11,320
Health and Welfare	10,233	660	19,047	42,144
Inspection and Regulation	4,132	386	848	7,520
Education	-	-	20	19
Protection and Safety	1,945	-	2,133	17,430
Transportation	1,677	21,191	3,679	271,310
Natural Resources	10,249	617	28,057	2,977
Total Special Revenue Funds	36,937	29,333	76,844	352,720
Debt Service Funds:				
Department of Transportation	-	-	74,192	211
Maricopa RARF	-	-	152,309	2,918
Certificates of Participation	-	-	37,286	-
Total Debt Service Funds	-	-	263,787	3,129
Capital Projects Funds:				
Maricopa RARF Financed	5,876	1,676	-	551
Other	552	215	41,300	15,567
Total Capital Projects Funds	6,428	1,891	41,300	16,118
Enterprise Funds:				
Lottery	-	10,838	-	42,980
Arizona Exposition and State Fair	-	-	-	135
Arizona Highways Magazine	-	2	-	174
Arizona Correctional Industries	55	-	-	244
Arizona Industries for the Blind	-	-	-	295
Healthcare Group of Arizona	-	-	8,000	43
Other	5	6	4,518	781
Total Enterprise Funds	60	10,846	12,518	44,652
Internal Service Funds:				
Risk Management	1	23	56	9,980
Transportation Equipment	1,775	-	-	1,289
Workers' Compensation	1	11	41	203
Technologies and Telecommunication	1,926	5	11	712
Motor Pool	957	1	-	43
Other	695	1,062	1,947	2,000
Total Internal Service Funds	5,355	1,102	2,055	14,227
Expendable Trust Funds:				
Unemployment Compensation	-	185	-	1,658
Employee Benefits	643	561	176,975	-
Energy Conservation	-	1	-	436
Other	286	619	7,051	1,189
Total Expendable Trust Funds	929	1,366	184,026	3,283
Non-Expendable Trust Funds:				
Land Endowments	523	202	-	864
Other	2,000	-	4,010	26
Total Non-Expendable Trust Funds	2,523	202	4,010	890

NOTE 10. INTERFUND TRANSACTIONS (CONCLUDED)

Primary Government (Continued):				
Pension Trust Funds:				
State Retirement	$ -	$ -	$ -	$ 6,352
Public Safety	-	-	668	1,053
Elected Officials	-	-	48	85
Corrections	-	-	-	462
Total Pension Trust Funds	-	-	716	7,952
Investment Trust Funds:				
Central Arizona Conservation District	1,029	-	-	-
Local Government Investment Pool	9,684	-	-	-
Local Government Investment Pool – Government	735	-	-	-
Total Investment Trust Funds	11,448	-	-	-
Agency Funds:				
Other Treasurer Funds	-	19,528	-	-
Other	-	4,147	-	-
Total Agency Funds	-	23,675	-	-
Total Trust and Agency Funds	14,900	25,243	188,752	12,125
University Funds	2,854	2,854	762,586	54,979
Total per Financial Statements – Primary Government	$ 92,237	$ 92,237	1,471,220	1,471,199
Component Units:				
Arizona Power Authority			-	21
Total Reporting Entity			$ 1,471,220	$ 1,471,220

B. RESIDUAL EQUITY TRANSFERS

Residual equity transfers occur when nonroutine transfers are made from one fund to another. During fiscal year 1999, funds were eliminated based upon House Bill 2323 passed during the 1998 legislative session. In addition, excess funds were transferred to the General Fund based upon Senate Bill 1001 Laws 1998 passed during the fifth special session and Senate Bill 1003 passed during the 1999 first special session. For the fiscal year ended June 30, 1999, residual equity transfers were made are as follows (expressed in thousands):

	Transfers In	Transfers Out
General Fund	$ 25,478	$ 530
Special Revenue Funds:		
General Government	333	2,308
Health and Welfare	-	2,200
Education	-	9,872
Protection and Safety	-	4,300
Natural Resources	-	1,288
Enterprise Funds:		
Lottery	-	1,500
Arizona Exposition and State Fair	-	2,000
Arizona Correctional Industries	-	1,000
Other	-	5
Internal Service Funds:		
Technology and Telecommunications	-	500
Expendable Trust Funds:		
Other	5	825
Non-Expendable Trust Funds:		
Land Endowments	523	11
Total Residual Equity Transfers	$ 26,339	$ 26,339

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS

A. ENTERPRISE FUNDS

The State groups its Enterprise Funds as follows:

* Industrial Commission - Administers and enforces the employment laws of the State, including the regulation of workers' compensation.

* Lottery - Accounts for lottery ticket revenues, administrative and operating expenses and distribution of revenues to other Funds.

* Arizona Exposition and State Fair - Provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

* Arizona Highways Magazine - Publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

* Arizona Correctional Industries - Employs prison inmates in its manufacturing, service and agricultural operations for the sale of goods and services primarily to other State agencies (including the Arizona Department of Corrections) and political subdivisions.

* Arizona Industries for the Blind - Accounts for the manufacturing, sale, distribution and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

* Healthcare Group of Arizona - Administers prepaid medical coverage primarily to small uninsured businesses with 1 - 40 employees and employees of political subdivisions.

* Arizona Beef Council - A not-for-profit organization that was created to establish a self-financed program to help develop and maintain state, national and foreign markets for beef and beef products.

* ComCare, Inc. - A nonprofit corporation responsible for the administration, coordination and delivery of comprehensive behavioral health services to residents of Maricopa County through a network of more than 130 provider agencies/individuals.

* Other Enterprise Funds - Consists of Arizona Historical Society Revolving Fund, Mines and Mineral Resources Printing Revolving Fund, Game and Fish Publications Revolving Fund, Department of Library and Archives Gift Shop Revolving Fund, Arizona State Hospital Enterprise Fund, Southern Arizona Mental Health Center Enterprise Fund, Land Department Resource Analysis Revolving Fund, State Parks Publications and Souvenirs Revolving Fund, Real Estate Printing Revolving Fund, Education Commodity Fund, Indian Affairs Commission Publications Revolving Fund, the School for the Deaf and Blind Cooperative Services Fund, the School for the Deaf and Blind Facilities Use Fund and the State Home for Veterans.

B. PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS

* University Medical Center - A 365-bed, general acute-care teaching facility in Tucson, Arizona. It is the primary teaching hospital for the College of Medicine of the University of Arizona.

* Arizona Power Authority - Purchases the State's allocation of Hoover power and resells it to Arizona entities that are eligible purchasers under federal and state laws. Hoover power is produced by the Bureau of Reclamation at the federally-owned Boulder Canyon Project hydropower plant, located near Las Vegas, Nevada.

* Water Infrastructure Finance Authority (WIFA) - The WIFA is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act) which required the State to establish the Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. WIFA has entered into an agreement this year with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act.

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS (CONTINUED)

Enterprise Funds segment information for the fiscal year ended June 30, 1999, is shown below (expressed in thousands):

Description	Industrial Commission	Lottery	Arizona Exposition and State Fair	Arizona Highways Magazine
Operating Revenues	$ 24,100	$ 269,158	$ 9,964	$ 10,917
Operating Expenses:				
Depreciation	495	651	1,016	358
Other	10,288	223,797	9,210	11,185
Operating Income (Loss)	13,317	44,710	(262)	(626)
Net Non-Operating Income (Loss)	(405)	-	769	(52)
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	(42,980)	(135)	(174)
Net Income (Loss)	$ 12,912	$ 1,730	$ 372	$ (852)
Current Assets	$ 41,364	$ 38,261	$ 7,287	$ 7,269
Current Liabilities	51,640	40,344	315	4,743
Net Working Capital	$ (10,276)	$ (2,083)	$ 6,972	$ 2,526
Property and Equipment:				
July 1, 1998, as restated	$ 18,790	$ 8,691	$ 22,530	$ 5,011
Additions	487	-	385	629
Deletions	61	15	69	1,446
June 30, 1999	$ 19,216	$ 8,676	$ 22,846	$ 4,194
Certificates of Participation	$ 9,800	$ -	$ -	$ -
Contributed Capital	$ -	$ -	$ -	$ 1,539
Residual Equity Transfer Out	$ -	$ (1,500)	$ (2,000)	$ -
Total Assets	$ 281,135	$ 48,276	$ 13,926	$ 9,689
Total Liabilities	203,962	40,667	465	4,743
Fund Equity	$ 77,173	$ 7,609	$ 13,461	$ 4,946

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS (CONTINUED)

Arizona Correctional Industries	Arizona Industries for the Blind	Healthcare Group of Arizona	Arizona Beef Council	ComCare	Other Enterprise Funds	Total
$ 16,703	$ 11,480	$ 20,476	$ 617	$ 106,567	$ 11,056	$ 481,038
672	555	8	5	2,952	488	7,200
15,113	11,681	28,572	669	103,321	13,645	427,481
918	(756)	(8,104)	(57)	294	(3,077)	46,357
173	1,167	283	7	(283)	23	1,682
-	-	8,000	-	-	4,518	12,518
(244)	(295)	(43)	-	-	(781)	(44,652)
$ 847	$ 116	$ 136	$ (50)	$ 11	$ 683	$ 15,905
$ 10,752	$ 4,572	$ 5,463	$ 195	$ 23,529	$ 3,460	$ 142,152
1,078	1,643	2,568	31	7,350	493	110,205
$ 9,674	$ 2,929	$ 2,895	$ 164	$ 16,179	$ 2,967	$ 31,947
$ 8,031	$ 5,304	$ 42	$ 40	$ 10,150	$ 14,447	$ 93,036
530	554	35	2	-	57	2,679
207	82	1	-	10,050	23	11,954
$ 8,354	$ 5,776	$ 76	$ 42	$ 100	$ 14,481	$ 83,761
$ -	$ -	$ -	$ -	$ -	$ -	$ 9,800
$ 3,167	$ 927	$ -	$ -	$ -	$ -	$ 5,633
$ (1,000)	$ -	$ -	$ -	$ -	$ (5)	$ (4,505)
$ 14,229	$ 7,403	$ 5,502	$ 205	$ 23,629	$ 16,187	$ 420,181
1,254	1,845	2,568	31	7,350	493	263,378
$ 12,975	$ 5,558	$ 2,934	$ 174	$ 16,279	$ 15,694	$ 156,803

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS (CONCLUDED)

Proprietary and Fiduciary Fund Types Component Units segment information for the fiscal year ended June 30, 1999, is shown below (expressed in thousands):

	Proprietary Fund Type		Fiduciary Fund Type	
Description	University Medical Center	Arizona Power Authority	Water Infrastructure Finance Authority	Total
Operating Revenues	$ 244,857	$ 21,549	$ 12,166	$ 278,572
Operating Expenses:				
Depreciation	17,257	44	-	17,301
Other	232,130	22,152	9,143	263,425
Operating Income (Loss)	(4,530)	(647)	3,023	(2,154)
Net Non-Operating Income (Loss)	(159)	246	-	87
Operating Transfers Out to Primary Government	-	(21)	-	(21)
Net Income (Loss)	$ (4,689)	$ (422)	$ 3,023	$ (2,088)
Current Assets	$ 95,012	$ 15,993	$ 33,581	$ 144,586
Current Liabilities	41,638	5,312	5,774	52,724
Net Working Capital	$ 53,374	$ 10,681	$ 27,807	$ 91,862
Property and Equipment:				
July 1, 1998	$ 227,380	$ 1,226	$ -	$ 228,606
Additions	24,357	11	-	24,368
Deletions	-	59	-	59
June 30, 1999	$ 251,737	$ 1,178	$ -	$ 252,915
Revenue Bonds	$ 74,798	$ 67,433	$ 144,656	$ 286,887
Contributed Capital	$ -	$ 9	$ 115,408	$ 115,417
Total Assets	$ 235,415	$ 76,915	$ 277,375	$ 589,705
Total Liabilities	138,586	72,745	150,474	361,805
Fund Equity	$ 96,829	$ 4,170	$ 126,901	$ 227,900

NOTE 12. FUND EQUITY

A. FUND BALANCES / RETAINED EARNINGS RESTATEMENT

Fund Balance and Retained Earnings at June 30, 1998, has been restated as follows (expressed in thousands):

	Primary Government			
	Special Revenue	Enterprise	Expendable Trust	Component Units
Fund Balances/Retained Earnings at June 30, 1998, as Previously Reported	$1,138,916	$ 126,650	$ 944,842	$ 106,101
Reporting Entity Addition:				
Water Infrastructure Finance Authority	-	-	-	8,470
Fund Reclassifications:				
State Parks Donations Fund	207	-	(207)	-
Veterans Services State Home Veteran Trust Fund	(60)	13,120	-	-
Prior Year Adjustment	-	-	1,723	-
Fund Balances/Retained Earnings as Restated July 1, 1998	$ 1,139,063	$ 139,770	$ 946,358	$ 114,571

1. Reporting Entity Additions

The Water Infrastructure Finance Authority (WIFA) is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act) which required the State to establish the Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. WIFA has entered into an agreement this year with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is considered a discrete component unit for financial reporting purposes.

2. Fund Reclassifications

Accounting and reporting treatment applied to a fund is determined by its measurement focus. The following funds' measurement focus changed during the fiscal year:

The State Parks Donation Fund receives monies from gifts, grants and other donations for the trail system. The State Parks Board does not act in a trustee capacity for these monies. Accordingly, the June 30, 1998 fund balance has been reclassified from an Expendable Trust Fund to a Special Revenue Fund.

The Veteran Services State Home for Veterans operates a nursing care institution for the State's Veterans. The Legislature has determined there is need to recover the costs of providing these services through user charges. Accordingly, the Veterans Services State Home for Veterans has been reclassified from a Special Revenue Fund to an Enterprise Fund. Including the effect of the change in measurement focus, the reclassification resulted in a net change of $13.120 million in fund equity from the Special Revenue Fund and the General Fixed Asset Account Group to the Enterprise Fund.

3. Prior Period Adjustment

The Veterans Services Fiduciary Division Fund asset amounts were understated by $1.723 million at June 30, 1998.

B. CHANGES IN CONTRIBUTED CAPITAL

The changes in contributed capital for fiscal year 1999 are shown below (expressed in thousands):

	Restated Beginning Balance July 1, 1998	Additions Contributed Capital Transfers In	Deletions Contributed Capital Transfers Out	Ending Balance June 30, 1999
Enterprise Funds:				
Arizona Highways Magazine	$ 2,039	$ -	$ (500)	$ 1,539
Arizona Correctional Industries	3,146	21	-	3,167
Arizona Industries for the Blind	927	-	-	927
Internal Service Funds:				
Transportation Equipment	6,107	-	-	6,107
Technologies and Telecommunications	687	-	-	687
Motor Pool	13,954	1,998	-	15,952
Component Units:				
Arizona Power Authority	9	-	-	9
Water Infrastructure Finance Authority	79,759	35,649	-	115,408

NOTE 12. FUND EQUITY (CONCLUDED)

C. FUND BALANCES / RETAINED EARNINGS DETAIL

The following schedule details fund balances at June 30, 1999 (expressed in thousands):

	Governmental Fund Types				Fiduciary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Trust	University
Fund Balances:						
Reserved for:						
Budget stabilization fund	$ 386,838	$ -	$ -	$ -	$ -	$ -
Highway construction	-	223,429	-	8,290	-	-
Inventory	1,267	-	-	-	-	-
Retirement benefits	-	-	-	-	28,322,613	-
Trust principal	-	-	-	-	2,033,599	-
Continuing appropriations	83,360	405,554	-	25,854	3,333	-
Debt service	-	-	35,972	-	-	-
Pool participants net assets	-	-	-	-	2,773,873	
Other	670	15,075	-	17	-	-
Unreserved:						
Restricted	-	-	-	-	-	282,551
Unrestricted:						
Designated	-	-	-	-	-	325,222
Undesignated	818,831	539,404	-	29,578	-	-
Total Fund Balances	$1,290,966	$1,183,462	$ 35,972	$ 63,739	$ 33,133,418	$ 607,773

Restricted fund balances for University Funds represents restrictions for U.S. Government grants refundable, endowments, quasi-endowments, restrictions for outstanding purchase orders, investment in joint venture and other restrictions of $28.172, $115.768, $28.762, $25.272, $14.000 and $70.577 million, respectively.

Designated fund balances for University Funds represents designations for outstanding purchase orders and other commitments, quasi-endowments, summer sessions, funding of ensuing year's budget and other designations of $34.375, $38.487, $8.973, $0.100 and $243.287 million, respectively.

The following schedule details retained earnings at June 30, 1999, (expressed in thousands):

	Proprietary Fund Types		
	Enterprise	Internal Service	Component Units
Retained Earnings (Deficits):			
Reserved for:			
Capital outlay	$ 1,912	$ -	$ 5,178
Replacement of equipment	-	9,985	-
Continuing appropriations	3,306	1,620	-
Other	79	-	948
Unreserved	145,873	(111,261)	94,864
Total Retained Earnings (Deficits)	$ 151,170	$(99,656)	$ 100,990

D. DEFICIT FUND EQUITIES

The Internal Service Fund deficit results from the Risk Management and Workers' Compensation Funds net losses in prior years. The Risk Management and Workers' Compensation Fund deficits of $103.702 and $63.087 million, respectively, are primarily due to the State's policy of funding 60% of the actuarially determined liability. However, 100% of the liability is recorded for financial statement purposes. The Risk Management and Workers' Compensation Fund accumulated deficits at June 30, 1999, should be recovered through annual adjustments to insurance billings. The entire liability is reflected in the Internal Service Funds, rather than being allocated to other funds, to assist financial statement users in their understanding and analysis of the Risk Management and Workers' Compensation Funds.

NOTE 13. RELATED PARTY TRANSACTIONS

A. ARIZONA STATE UNIVERSITY

Not included in the accompanying financial statements are six financially interrelated organizations that are nonprofit corporations controlled by separate Boards of Directors whose goals are to support Arizona State University. Financial statements of these organizations are audited by independent auditors.

Four of these financially interrelated organizations (the Arizona State University Alumni Association, Arizona State University Foundation, Sun Angel Foundation and the Sun Angel Endowment) receive funds primarily through donations and dues, and contribute funds to the University for support of various programs.

A fifth financially interrelated organization, Price-Elliott Research Park, Inc. (Park), is developing a research park to promote and support research activities, in coordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.

As of June 30, 1999, the Park had $18.245 million of revenue bonds outstanding at an average interest rate of 5.26%. The debt service on the bonds is secured by a subordinated lien on University Main Campus revenues. Park revenues are not pledged in order to provide development flexibility to the Park.

Annual debt service on the Park bonds will be $993 thousand in fiscal 2000 and varies from a low of $898 thousand in fiscal 2004 to a high of $1.698 million in fiscal 2006. The University is obligated to pay the annual debt service, if not paid by the Park, under a debt service assurance agreement.

Beginning in fiscal 1990, the University provided operating cash advances to the Park repayable with interest to the University (1) upon the Park's total gross receipts for a fiscal year exceeding its total disbursements for that fiscal year and (2) before any Park surpluses are transferred to the Arizona State University Foundation. The last year for cash transfers to the Park was fiscal 1998. Since the Park's repayment to the University was dependent upon successful future operations and entering into of additional land leases, the transfers to the Park were recorded by the University as current year expenditures when made and not as an asset on the University's balance sheet. Total cash advances repayable to the University at June 30, 1999, including the accrued interest, totaled $8.291 million. During fiscal year 1999, the Park repaid $662 thousand to the University, with this amount being recorded as other source revenues with the timetable for future repayments dependent upon the Park entering into additional land leases.

A sixth financially interrelated organization, the Collegiate Golf Foundation, operates a University-owned golf course. Assets, net assets, and revenues for these organizations for the most recent fiscal years for which audits have been completed aggregated $202.5, $152.9, and $82.4 million, respectively, with substantially all of the net assets being donor restricted or endowment funds.

B. NORTHERN ARIZONA UNIVERSITY

The financial activities of the Northern Arizona University Foundation, Inc., are not included in the accompanying financial statements. The foundation is a nonprofit corporation controlled by a separate Board of Directors. The goals of the foundation are to promote the cause of education and the objectives of the University.

C. UNIVERSITY OF ARIZONA

The accompanying financial statements do not include the operations of the University of Arizona Foundation, Inc., the University Physicians, Inc., the Arizona Research Park Authority, and the Campus Research Corporation.

The University of Arizona Foundation, Inc. (Foundation) is a nonprofit corporation controlled by a separate Board of Directors. The principal goals of the Foundation are to support the University of Arizona through various fund-raising activities, and to contribute funds to the University for support of various programs. According to the audited financial statements of the Foundation for the year ended June 30, 1998, assets, liabilities, revenues, and expenditures totaled $219, $26, $93, and $43 million, respectively.

The University Physicians, Inc. (UPI) is a nonprofit corporation established to provide medical services and to support the University of Arizona in its teaching and research missions. UPI is controlled by a Board of Directors, comprised of the Dean, three faculty physicians, a representative of the twelve clinical department heads and three community members. The primary purpose of UPI is to assist the University's College of Medicine in achieving its teaching and research mission through the provision of patient care. According to the audited financial statements of UPI for the year ended June 30, 1998, assets, liabilities, revenues and expenditures totaled $84, $42, $116 and $118 million, respectively.

The Arizona Research Park Authority (ARPA) is a nonprofit corporation created with the permission of the Arizona Board of Regents (ABOR) and designated by Arizona law as a political subdivision of the State, governed by a separate board of directors which by law may not include officers or employees of ABOR. ARPA was established under the State's industrial development authority statute to assist in the acquisition, improvement, and operation of university research parks and related properties. In August 1994, ARPA, with the approval of ABOR, sold $98 million

NOTE 13. RELATED PARTY TRANSACTIONS (CONCLUDED)

of nontransferable special revenue bonds to International Business Machines Corporation (IBM) to enable the University to acquire from IBM a 345-acre developed industrial site (the "Research Park") near Tucson, Arizona, together with 1,000 acres of adjacent unimproved land (collectively, the University of Arizona Science and Technology Park or the "Park"). The transaction was accomplished through the following steps: (1) the University agreed to pay $98 million to IBM for title to the entire Park; (2) ARPA and Campus Research Corporation jointly agreed to lease the developed portion of the Park from the University for a period of 30 years with a prepaid rental of $98 million; (3) ARPA subleased 72% of the building space in the developed portion of the Park to IBM for periods of up to 30 years for a rental sufficient to pay debt service on ARPA's bonds; and (4) ARPA used the $98 million received from its bond sale to make the rental prepayment to the University who, in turn, applied the money to purchase the entire Park from IBM. The bonds are payable solely from lease rentals paid by IBM. If IBM defaults or cancels its lease, the bonds must be surrendered and discharged. Title to the entire Park resides in the University and neither the Park nor any payments by the University secures ARPA's bonds. Since the original transaction, IBM has reduced its leasehold to 70% of the building space for periods up to the remaining term of 25 years. Audited financial statements are not available.

The Campus Research Corporation (CRC) is a nonprofit corporation governed by a separate Board of Directors and was established to assist the University in the acquisition, improvement, and operation of the Research Park and related properties. CRC leases from the University the remaining 30% of the building space of the Research Park that is not leased to ARPA (see preceding paragraph). CRC is responsible for assisting in the development of the presently undeveloped portions of the Research Park and for subleasing to the University or to third parties currently existing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The University is responsible for payment of operational expenses associated with the space occupied by the University departments, offices, and programs. All income received by CRC from its activities, after payment of expenses and financial reserves, will be turned over to the University.

CRC's June 30, 1998, audited financial statements disclosed:

- $7.284 million total assets, including $4.804 million of net intangible assets, $1.042 million of rents receivable, and $733 thousand of net property and equipment.
- $5.004 million total liabilities, including $4.419 million of long-term notes payable to Norwest Bank Arizona collateralized by leasehold interests.
- $2.902 million total revenues, including $1.001 million of rent revenues from the University and $1.878 million rent revenues from other tenants.
- $2.483 million total expenses, including $1.289 million of project operating costs, $377 thousand of interest, and $341 thousand of intangible assets amortization.

CRC's audited financial statements may be obtained by writing to P.O. Box 210066, Tucson, Arizona 85721-0066.

D. UNIVERSITY MEDICAL CENTER

The University Medical Center (UMC) and the University of Arizona (the University) both provide and receive services from each other under various contracts. Payments to the University by the UMC include resident and intern salaries, utilities, ground maintenance, mailroom operations and various administrative functions. Amounts paid to the University for these services were $12.624 million for the year ended June 30, 1999.

The UMC has entered into contractual agreements with the University to provide support for the academic mission of the University. Charges to the University for such services and facilities provided by the UMC were $9.516 million for the year ended June 30, 1999. These amounts are included in other operating revenue in the accompanying financial statements.

University Physicians, Inc. (UPI) is a not-for-profit corporation whose members are physicians employed by the University of Arizona and who practice at the UMC. The UMC has agreements with UPI whereby UPI provides physician and other services to the UMC.

NOTE 14. JOINT VENTURE

UNIVERSITY OF ARIZONA

The University of Arizona (the University) is a participant in the Large Binocular Telescope Corporation (LBT). LBT was formally incorporated as a not-for-profit corporation in August 1992, pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the University and the Arcetri Astrophysical Observatory in Florence, Italy (Arcetri). The purpose of the joint venture is to design, develop, construct, own, operate and maintain a binocular telescope currently being constructed in Arizona. The current members of LBT are the University, Arcetri, Research Corporation, Ohio State University and LBT Beteiligungsgesellschaft (LBTB).

NOTE 14. JOINT VENTURE (CONCLUDED)

The University has committed resources equivalent to 25% of the project's construction costs and LBT's annual operating costs. As of June 30, 1999, the University has made cash contributions of $14.0 million toward the project's construction costs. The University's financial interest represents its future viewing/observation rights. Upon completion of construction, viewing rights will be divided equally among the participants in proportion to their contributions. According to the unaudited financial statements of LBT for the year ended December 31, 1998, assets, liabilities, revenues and expenditures totaled $50.0 million, $1.0 million, $15.0 million and $700 thousand, respectively.

NOTE 15. COMMITMENTS, CONTINGENCIES AND COMPLIANCE

A. RISK MANAGEMENT INSURANCE LOSSES

The Department of Administration - Risk Management Section manages the State's property, environmental, liability and workers' compensation losses. The State has determined that the management of these losses can be performed effectively and efficiently through the Risk Management Section. Consequently, all agencies and the State's three universities are required to participate in this program. The State's Risk Management Section evaluates the proper mix of purchased commercial insurance and self insurance annually.

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management and Workers' Compensation Funds. As discussed in the following paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. Once the needed funding is determined, each agency is assessed an annual portion of the necessary funding based on their exposures and prior loss experience.

The State records claims liability when the reported loss is probable and reasonably estimated. On an annual basis an independent actuarial firm is engaged to estimate the State's total year-end outstanding claims liability, which takes into account recorded claims and related allocated claims adjustment expenditures, salvage, subrogation, loss development factors and an estimate for incurred but not reported claims.

Occasionally, the State agrees with claimants to purchase an annuity contract to settle these specific claims when it is determined that it is in the best interest of the State to do so. In these instances, the State requires the claimant to sign an agreement releasing the State from any further obligation. In addition, the State requires that a third party assignment company be named in the contract should the annuity company fail to perform its obligations under the annuity contract. As a result of these requirements, the likelihood that the State will be required to make future payments on these claims is remote.

There have been no significant reductions in the current fiscal year insurance coverage. There has been no settlements that have exceeded insurance premium coverage in the last three years.

The following table presents the changes in long-term claims liability balances during fiscal years ended June 30, 1998 and June 30, 1999 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
1998	$ 142,697	$ 3,726	$ 26,440	$ 119,983
1999	119,983	55,751	39,323	136,411
Workers' Compensation Fund:				
1998	84,416	7,193	15,544	76,065
1999	76,065	23,782	16,510	83,337

NOTE 15. COMMITMENTS, CONTINGENCIES AND COMPLIANCE (CONCLUDED)

B. LITIGATION

In *Ladewig vs. Waddell*, the plaintiff challenges the constitutionality of the deduction given for dividends received from corporations doing most of their business in Arizona. The Tax Court certified a class and found the tax to be unconstitutional. Class certification and a statute of limitations issue were appealed to the Court of Appeals and a decision is pending. Potential outcome of the case cannot be determined. The Court of Appeals may hold that only the plaintiff is entitled to refunds due to the statute of limitations. However, if class certification is affirmed, the estimated potential loss to the State is $300 to $400 million.

In *Kerr vs. Waddell*, federal employees have claimed an income tax refund on taxes paid on Federal employee contributions. The Board of Tax Appeals granted these claims for the years before 1991, but has denied the claim for later years. The State did not appeal. The plaintiffs appealed for years after 1990. The potential outcome cannot be determined. If this case were to have an unfavorable outcome, the State could incur losses ranging from $20 million to $100 million.

In *Roosevelt Elementary School District No. 66 vs. Jane Dee Hull*, the plaintiffs allege the defendants failed to fully fund the Building Renewal Fund established by the Students FIRST legislation. A motion to dismiss has been filed on behalf of all defendants. Briefing on that motion should be completed at the end of January 2000. The potential outcome is uncertain at this time. If the case were to have an unfavorable outcome, the State may be required to provide approximately $56 million in additional funding.

The State is also a defendant in a number of other pending lawsuits. All losses for any unsettled litigation or contingencies are determined on an actuarial basis and included in the Accrued Insurance Losses of the Internal Service Funds.

C. AUDITED FINANCIAL STATEMENTS

The four State pension plans, certain State agencies, commissions and authorities are audited by independent public accountants. Copies of these audits, as well as audits performed by the State Auditor General, are available from the State Library and Archives.

D. ACCUMULATED SICK LEAVE

Effective July 1, 1998, State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1500 hours upon retirement directly from State service. The benefit value is calculated by taking the State hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1500 hours. The maximum benefit value is $30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the financial statements as an Expendable Trust Fund. The long-term portion of the accrued liability is recorded in the General Long Term Debt Account Group. Unused accumulated sick leave of employees of the State, excluding Universities, at June 30, 1999, totaled $232.470 million.

E. UNCLAIMED PROPERTY

The State of Arizona's Uniform Unclaimed Property Act requires deposit of certain unclaimed assets into a managed Agency Fund. ARS §44-323 requires a separate trust fund of not less than $100 thousand to be retained for prompt payment of claims. The excess amount, above that which is required to be retained, is required to be deposited to the General Fund where it is included as Other Revenue. Under a statute that took effect July 1, 1990, up to $1.0 million in unclaimed utility deposits is deposited in the Utility Assistance Fund to help low-income and elderly people make utility deposits and repairs. Fifty-five and twenty percent of the remaining net cash collected, after refunds, is transferred to the Department of Commerce Housing Fund to be used for low-cost housing and the State Treasurer for distribution as provided for in ARS §5-113, respectively. The balance is to be deposited in the General Fund. For fiscal year 1999, $818 thousand was deposited in the Utility Assistance Fund, $6.792 million was deposited in the Housing Fund, $2.465 million was deposited with the State Treasurer and $2.085 million was deposited in the General Fund. A total of approximately $142.213 million has been remitted since inception of the fund. In addition, the State is also holding stock valued at $11.268 million. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The Governmental Accounting Standards Board requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. This liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona. At June 30, 1999, this amount, reported as Due to Others in the General Fund, is $33.998 million.

F. CONSTRUCTION COMMITMENTS

The Arizona Department of Transportation had outstanding commitments under construction contracts of approximately $754.710 million at June 30, 1999.

NOTE 15. COMMITMENTS, CONTINGENCIES AND COMPLIANCE (CONCLUDED)

G. ARIZONA STATE LOTTERY

Annuities are purchased for all prizes over $400,000 for which winners will receive the jackpot in annual installments for the Lotto on-line game. These annuities are purchased from qualifying insurance companies that have the highest ratings from either A.M. Best Company, Standard & Poor, Moody, Duff & Phelps or Weiss. The Lottery remains contingently liable on all annuities. Aggregate future payments to prize winners on existing annuities totaled approximately $421.3 million at June 30, 1999. Approximately $319.6 million of the total aggregate future payments relates to annuities purchased from seven separate insurance companies, of which approximately $128.8 million relates to a single insurance company.

During 1991, an insurance company from which the Lottery purchased annuities in 1982 and 1983 was placed under State supervision but as of June 30, 1999, has been removed from State supervision. At June 30, 1999, remaining aggregate minimum future payments on such purchased annuities approximated $219 thousand. In 1994, an insurance company from which the Lottery purchased annuities during the period 1983 through 1989 was placed under State supervision. At June 30, 1999, remaining aggregate minimum future payments on such purchased annuities approximated $19.300 million. In 1997, an insurance company from which the Lottery purchased annuities in 1986 was placed under State supervision. At June 30, 1999, remaining aggregate minimum future payments on such purchased annuities approximated $4.140 million. During 1999, an insurance company from which the Lottery purchased annuities in 1984 was placed under State supervision. At June 30, 1999, remaining aggregate minimum future payments on such purchased annuities approximated $948 thousand. As of September 30, 1999, all four insurance companies were current in their required annuity payments. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the operations or financial position of the Lottery.

NOTE 16. COMCARE, INC.

ComCare, Inc. (ComCare), is an Arizona not-for-profit corporation dedicated to improving the health and welfare of individuals with substance abuse, behavioral/mental health disorders and serious mental illnesses. Under its contract with the Arizona Department of Health Services (ADHS), ComCare served as the sole Regional Behavior Health Authority (RBHA) for the Maricopa County under the State behavioral health system through September 18, 1998. As a RBHA, ComCare was responsible for the administration, coordination and delivery of comprehensive behavioral health services to residents of Maricopa County through a network of more than 130 provider agencies/individuals. ComCare's contract with ADHS represented approximately 95% of ComCare's revenue.

The RBHA contract between ADHS and ComCare required ComCare to maintain certain service levels and funding necessary to meet applicable legal requirements imposed on ADHS by state and federal law. Early in 1997, ADHS informed ComCare that certain actions, proposed actions and refusals to act by ComCare constituted breaches of contract regarding (i) potential failures of the State's legal responsibilities to the seriously mentally ill population, (ii) required financial standards and (iii) the adequacy of the network of subcontracted providers of behavioral health services. ComCare took the position that it was in compliance with the contract and did not modify its conduct. As a result, the Governor issued an executive order, pursuant to ARS §36-3412(E), declaring that an emergency existed in the behavioral health system. Thereafter, ComCare and ADHS began to litigate ComCare's performance under its contract with ADHS. ADHS sought a declaratory judgment that it had statutory authority to "directly operate" ComCare pursuant to ARS 36-3412(D), which provides as follows:

> The department's contracts with regional behavioral health authorities shall include terms authorizing the department to operate a regional behavioral health authority directly. These contract terms shall stipulate the circumstances under which the department could step in for direct operation. The department shall after delivering notice to the regional behavioral health authority in question, operate the regional behavioral health authority for only as long as it is necessary to assure delivery of uninterrupted care to clients and accomplish the orderly transition of those members to a new regional behavioral health authority, to other existing regional behavioral health authorities, or until the regional behavioral health authority in question reorganizes or otherwise corrects the contract performance failure.

On September 5, 1997, after extensive court proceedings in two separate venues, and with a third lawsuit having been filed, ComCare and ADHS agreed to settle all litigation. Under the terms of the settlement, the lawsuits would be dismissed and ADHS would assume direct operation of ComCare pursuant to ARS §36-3412(D). ComCare agreed to reorganize itself to effectuate the transfer of direct operation of ComCare to ADHS. Although ADHS began to directly operate ComCare following the settlement, ComCare continued observing all corporate formalities and continued to provide services and receive payments in accordance with the requirements of the contract between ADHS and ComCare.

NOTE 16. COMCARE, INC. (CONCLUDED)

ComCare's contract with ADHS expired September 18, 1998. ADHS awarded the contract to a separate unrelated entity, ValueOptions, a division of FHC Health Systems. ComCare entered into a sub-contract agreement with ValueOptions from September 19, 1998 through February 8, 1999. Under the sub-contract agreement with ValueOptions, ComCare was responsible for the same services previously covered by its contract with ADHS. The remaining 5% of ComCare's revenue stream was generated from housing grants from Department of Housing and Urban Development (HUD) and the Department of Commerce (DOC). The HUD grants were assigned to a third party beginning June 1, 1999. ComCare assigned the remaining DOC grants to a third party beginning in August 1999. Subsequent to February 8, 1999, the majority of ComCare's revenue stream ceased and ComCare disposed of the majority of its assets and terminated the majority of its employees. Revenues and expenses related to these transactions are included in the accompanying financial statements. Accordingly, the carrying values of the remaining assets are presented at estimated net realizable values and all liabilities are presented at estimated settlement amounts. Management believes these amounts approximate the ultimate liquidation amount. It is not presently determinable whether the amounts realizable from the disposition of the remaining assets or the amounts that creditors agree to accept in settlement of the obligations due them will differ materially from the amounts shown in the accompanying financial statements.

Subsequent to June 30, 1999, ComCare completed a formal plan of liquidation whereby a trust has been established to receive ComCare's net assets after settlement of liabilities. The purpose of the trust will be to distribute the net assets in accordance with ComCare's charitable purpose and for the benefit of behavioral health services as directed by the Trustee. ADHS will serve as the Policy Trustee and ValueOptions will serve as Administrative Trustee. In August 1999, ComCare transferred approximately $3.7 million to the trust. The remainder of the net assets will be transferred upon final settlement of the remaining obligations of ComCare. The accompanying financial statements do not include any adjustments relating to the ultimate recoverability and classification of asset carrying amounts or the amount and classification of ComCare's existing liabilities or other liabilities that might result from the uncertainty related to the ultimate resolution of ComCare's net assets.

NOTE 17. TOBACCO SETTLEMENT

The State is one of many states participating in the settlement of litigation with the tobacco industry over the reimbursement of healthcare costs. The State's share of the settlement agreement totals $3.151 billion, payable over 25 years. This amount includes a "Strategic Contribution Fund" payment of $263.062 million that the State earned for its role in the settlement.

The State Specific Finality is the date on which Arizona's interest in its share of the payments "vests." The State obtains State Specific Finality when: The trial court in that State has approved the master settlement agreement, the consent decree, and dismissed claims against the participating manufacturers, which has occurred in Arizona, and the time to appeal that approval has run without an appeal or, if there is an appeal, that appeal has been resolved in favor of the master settlement agreement being approved. The tobacco industry is not satisfied that the State has met this prong of the test because of litigation filed on behalf of 13 of the 15 counties in Arizona. The counties' litigation contends that they are eligible for a portion of State's share of the national tobacco settlement.

The master settlement agreement is automatically terminated with respect to any state that does not achieve State Specific Finality on or before December 31, 2001.

The State has elected not to accrue any portion of its share in the master settlement agreement on the financial statements because the amount to be distributed to the State is not measurable or available as of June 30, 1999. When the State becomes eligible for its share of the master settlement agreement, the State will accrue the amount on the balance sheet as a receivable and deferred revenue, reduced by any of the amount that has been collected.

NOTE 18. CONDUIT DEBT

In November 1998, the Greater Arizona Development Authority (GADA), part of the primary government, issued $13.270 million in Infrastructure Revenue Bonds, Series 1998 for public infrastructure projects in the communities of Avondale, Goodyear and Winslow. The State appropriated $20 million to GADA for the express purpose of securing bonds issued by the GADA. The Series 1998 Bonds were issued by GADA to make loans to the participants listed above and constitute special, limited obligations of GADA payable solely from the funds which are held in Trust by the Trustee (the Trust Estate). The Trust Estate includes debt service payments required to be made by the participants in the Series 1998 Bond Issue. The bonds do not constitute a legal debt of the GADA or the State, and accordingly have not been reported in the accompanying financial statements.

At June 30, 1999, Infrastructure Revenue Bonds outstanding aggregated $13.270 million.

NOTE 19. SUBSEQUENT EVENTS

A. PRIMARY GOVERNMENT

1. Department of Transportation

On July 21, 1999, the Department of Transportation (the Department) issued $124.695 million in Transportation Excise Tax Revenue Bonds (1999 Series) to (i) advance refund portions of the Transportation Board's Senior Bonds, (ii) finance the acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona and (iii) pay costs of issuing the 1999 Series Bonds. The 1999 Series Bonds are due July 1, 2000 through 2005.

Net proceeds totaled $126.690 million (after receipt of $2.112 million of reoffering premium and payment of $117 thousand in underwriting fees). Net proceeds of $4.712 million were used to advance refund $4.640 million of the 1991 Series A, Senior Transportation Excise Tax Revenue Bonds (Refunded Bonds). State and Local Government securities were purchased with these proceeds and were deposited in an irrevocable trust with an escrow agent to provide for the partial future debt service payments on the above-referenced bonds. As a result, the Refunded Bonds will be considered defeased and the liability for these bonds will be removed from the General Long-Term Debt Account Group. The Department advance refunded the Refunded Bonds to reduce its total debt service payments over the next two years by $57 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $56 thousand.

On November 16, 1999, the Department issued $151.080 million in Highway Revenue Bonds (Series 1999) to (i) finance portions of the Board's five year capital program, (ii) advance refund portions of the Board's outstanding Senior Bonds and Subordinated Bonds and (iii) pay costs of issuing series 1999 Bonds. The Series 1999 Bonds are due July 1, 2001 through July 1, 2019.

Net proceeds totaled $151.926 million (after receipt of $1.782 million of reoffering premium and payment of $935 thousand in underwriting fees). Net proceeds of $21.409 were used to advance refund $9.065 million of the Senior Series 1990 Bonds and $11.410 million of the Subordinated 1991 Series A Bonds. State and Local Government securities were purchased with these proceeds and were deposited in an irrevocable trust with an escrow agent to provide for the partial future debt service payments on the above-referenced bonds. As a result, the Refunded Bonds will be considered defeased and the liability for these bonds will be removed from the General Long Term Debt Account Group. The ADOT advance refunded the Refunded Bonds to reduce its total debt service payments over the next three years by $491 thousand and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of $407 thousand.

2. University of Arizona

On August 19, 1999, the University of Arizona issued Certificates of Participation Series 1999A for $21.607 million and Series 1999B for $36.500 million. The proceeds are being used to finance a portion of the costs of constructing and equipping a new student union and bookstore facility. The Series 1999A issue consists of $19.266 million fixed rate current interest certificates and $2.341 million of fixed rate capital appreciation certificates and have interest ranging from 5 to 5.53 percent. The Series 1999B certificates are variable rate current interest certificates that initially bear interest at the rate of 3.55 percent for the initial period through March 7, 2000. Thereafter, at the option of the Arizona Board of Regents, the certificates are subject to conversion to an adjustable rate, an annual rate, or a term rate pursuant to the trust agreement. If not converted, the certificates will bear interest at a weekly rate not to exceed 12 percent determined under prevailing market conditions by the remarketing agent.

NOTE 19. SUBSEQUENT EVENTS (CONCLUDED)

B. COMPONENT UNITS

1. Water Infrastructure Finance Authority of Arizona

Effective September 8, 1999, Water Infrastructure Finance Authority of Arizona (WIFA) issued $64 million of bonds to refund Series 1991 bonds, a portion of Series 1992 bonds, a portion of Series 1995 bonds and a portion of Series 1996 bonds and the bonds and the loans from Series 1997 and 1998 were transferred into WIFA's common open pool, subject to a new Master Trust Indenture. Under the new Master Trust Indenture, loans will be originated using all of WIFA's available funds, including federal capital grants, state match monies, certain investment earnings and bond proceeds. All assets designated as pledged pursuant to the Master Indenture will secure and be the source of payment of all bonds.

REQUIRED SUPPLEMENTARY INFORMATION

(NOT COVERED BY THE INDEPENDENT AUDITORS' REPORT)

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, *Disclosures about Year 2000 issues*. The provisions of the GASB Technical Bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, require the State to make disclosures about its state of readiness in addressing Year 2000 issues for its internal computer systems and equipment.

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999. The Year 2000 issue refers to the fact that many computer programs only use the last two digits to refer to a year; consequently, both 1900 and 2000 would be referred to as "00". Computer programs that cannot recognize the difference between those two years may fail or create errors. Programs that can recognize the difference, or are effectively converted to do so, are considered Year 2000 compliant.

Typically, conversion efforts to address Year 2000 issues progress through the following four stages.

* Awareness--Establishing a budget and project plan for dealing with year 2000 issues.
* Assessment--Identifying the systems and components for which year 2000 compliance work is needed.
* Remediation--Making changes to systems and equipment.
* Validation/Testing--Testing the changes made to systems and equipment and reviewing the results.

PRIMARY GOVERNMENT

The Year 2000 information for the three State universities is presented separately at the conclusion of this section.

A. AGENCIES AND DEPARTMENTS

The State has been actively involved in the effort to identify, prioritize and repair Year 2000 computer problems since late 1995. The Government Information Technology Agency (GITA) is coordinating the effort by the State to meet the challenge of the Year 2000 project. The State has completed an inventory of computer systems and other electronic equipment.

The State has identified 239 mission-critical applications that are intrinsically important in protecting public health and safety, meeting specific legal mandates, or providing a critical public service.

As of June 30, 1999, the State has completed the Awareness, Assessment, Remediation and Validation/Testing stages for all of its mission-critical applications, except the following. (C means complete, P means in process and A means still needs to be addressed.)

	Awareness	Assessment	Remediation	Validation/ Testing	Comments
Department of Administration					
Human Resources Management System -- Payroll System	C	C	C	P	Completed 7/1/99
KOMMAND – Billing for Internal Service Funds	C	C	C	P	Completed 8/1/99
Department of Corrections					
Adult Inmate Management System	C	C	C	P	Completed 8/31/99
Department of Transportation					
New Financial System	C	C	P	P	Completed 9/30/99
Freeway Management System	C	C	P	P	
Department of Economic Security					
DACS Ledger	C	C	P	P	
DDD Assists – Arizona Social Services Information Tracking	C	C	C	P	Completed 8/31/99
Unemployment Insurance/Tax	C	C	C	P	Completed 8/13/99

	Awareness	Assessment	Remediation	Validation/ Testing	Comments
Department of Health Services					
Birth Certificates	C	C	P	P	Completed 10/29/99
Death Certificates	C	P	P	P	Completed 10/28/99
CIS	C	C	P	P	Completed 10/29/99
VR Enumeration	C	P	P	P	
VR IND'Y and OCCN	C	P	P	A	
Fetal Death	C	C	P	A	
State Lab Licensure	C	C	C	P	Completed 8/31/99
Department of Revenue					
Transaction Privilege Tax	C	C	C	P	Completed 7/23/99
Electronic Funds Transfer	C	C	C	P	Completed 7/1/99
Data Entry	C	P	A	A	

The Legislature has appropriated a total of $44 million to date to supplement state agency commitments to work on Year 2000 projects. The total estimated cost for repair of Year 2000 problems is now $125 million, of which 62 percent will come from reallocations of funding and personnel within the agencies. The State has no contractual obligations with outside parties for remediation services. However, approximately $375 thousand has been reserved for additional costs associated with these efforts, if needed.

The State exchanges data with a number of federal, local and private entities. Examples include the Internal Revenue Service, the Federal Bureau of Investigation, and the U.S. Department of Health and Human Services. If the systems in the State are repaired, but receive data from entities whose data is not four-digit year date compliant, the result could be the corruption of the data in the compliant system. The State has identified 1,770 data exchanges. As of June 30, 1999, the State had completed the awareness, assessment, remediation and validation/testing stages for 1,712 data exchanges. The remaining 58 are in the validation/testing stage with planned completion dates of December 1999 or earlier.

In addition to the mission-critical applications, the State uses equipment that is dependent on microchip technology such as traffic lights, prison doors, building control equipment and heavy machinery. While a vast majority of these computer chips have no date sensitivity, a percentage is date dependent. The State had substantially completed the assessment, remediation and validation/testing stages for its microchip technology as of June 30, 1999, with planned completion dates of December 1999 or earlier.

B. ARIZONA STATE UNIVERSITY

Arizona State University (the University) started in 1994 to identify the major electronic data processing and other systems that needed to be updated or replaced in order to make these systems year 2000 compliant. As of June 30, 1999, the Year 2000 compliance status of the University's four major informational electronic data processing systems was as follows: Human Resources System: A Year 2000 compliant vendor system release had been installed and was fully operational; Student Information Systems: Needed changes for the systems to be Year 2000 compliant were completed with the University being near completion of the validation and testing stage in regards to the Year 2000 changes that had already been implemented; Financial System: A Year 2000 compliant new financial system had been installed as of June 30, 1999 and was fully operational as of September 3, 1999; and Telecommunication System: A Year 2000 compliant vendor system release for the main telephone switch had been installed and was fully operational.

In addition to the above noted electronic data processing systems, there is certain facility-related equipment that is dependent upon microchip technology and Year 2000 compliant software; e.g., central plant, security and fire alarms, elevators and energy management systems. Prudent measures have been taken to avoid or at least substantially mitigate any major facility-related equipment problems when Year 2000 arises. A task force was formed in the summer of 1998 to assess the facility-related equipment that may be impacted by microchips that are not Year 2000 compliant. As of June 30, 1999, the University had substantially completed the assessment of its facilities-

related equipment, identified non-compliant components, replaced non-compliant microchips and software and completed testing of all major systems that could impact University-wide operations. Certain noncritical systems are also being updated with planned completion dates of December 1999 or earlier.

C. NORTHERN ARIZONA UNIVERSITY

The Northern Arizona University (the University) is aware of this problem and has been taking the necessary corrective action to its mission-critical systems since September 1997. The University has identified nine computer systems and electronic equipment groups that are critical to its operations (payroll, human resources, telecommunications, facilities, financial aid, student business services, admissions, student matriculation, and accounting.) These mission-critical systems and equipment groups affect the financial, personnel, and safety aspects of the University's operations. The University has completed the validation/testing stage for the telecommunications, facilities, and admissions systems. Remediation has been completed for all other systems and the University is in the validation/testing stage for those systems.

D. UNIVERSITY OF ARIZONA

The University of Arizona (the University) started in 1994 to identify the mission-critical electronic data processing and other systems that needed to be updated or replaced in order to make these systems Year 2000 compliant. The awareness and assessment stages were completed in 1996. Remediation activities began in 1997. The University has no contractual obligations with outside parties for remediation services. However, approximately $350 thousand has been reserved for additional costs associated with these efforts, if needed.

As of June 30, 1999, the Year 2000 compliance status of the University's four mission-critical electronic data processing systems was as follows: Human Resources System: Needed changes for the system to be Year 2000 compliant had been installed and were fully operational by February 1998; Student Information System: Needed changes for the system to be Year 2000 compliant were completed (remediated), and the validation and testing stage had begun. Completion of this process is projected for Fall 1999; Financial System: A Year 2000 compliant vendor system release had been installed and was fully operational by August 1998; and Telecommunication System: Needed changes to the phone switch, voice mail system, data networks, and servers used for the campus backbone to address Year 2000 compliance were completed (remediated), and the validation/testing stage had begun. Remediation is still occurring on the telephone system, with completion of this stage and all testing and validation processes projected for Fall 1999.

In addition to the above noted electronic data processing systems, there is certain other electronic equipment (critical to the operations of the University) that is dependent upon microchip technology, e.g., central plant, security and fire alarms, elevators, credit card readers, and energy management systems. Prudent measures have been taken to avoid or at least substantially mitigate any major electronic equipment problems when Year 2000 arises. As of June 30, 1999, the University has substantially completed the assessment of this equipment and was in the remediation and validation/testing stages of making the needed changes to be Year 2000 compliant, with planned completion dates of December 1999 or earlier. In addition, the University has also acquired a site license for a work station remediation tool. This tool has been freely distributed to all campus users requesting it for the purpose of ensuring Year 2000 compliance for individual microcomputers.

BLENDED COMPONENT UNITS

A. ARIZONA STATE RETIREMENT SYSTEM

In July 1994, the Arizona State Retirement System (ASRS) began planning the redevelopment and execution of its entire information system. This effort is known as PERIS – Public Employee Retirement Information System. As part of the PERIS project, ASRS completed an inventory of ASRS computer systems and identified Membership Processing, Contribution Accounting, Pension Benefit Processing and Health Insurance applications that may be affected by the Year 2000 issue and that are necessary to conduct ASRS operations:

The validation and testing stage of Membership Processing and Contribution Accounting applications were both near completion at June 30, 1999. The validation/testing stage was completed in mid-October 1999 and these systems were implemented in late October 1999.

Development of the PERIS-Pension Benefit Processing system was suspended at the end of fiscal year 1999. The PERIS-Health Insurance system remediation stage was completed in September 1999 and the validation and testing of this system was completed in mid-November 1999. The PERIS-Health Insurance system was implemented in December 1999.

Remediation of the current ASRS Pension Benefit Processing system was completed in the last quarter of fiscal year 1999. Validation of this system was

completed in October 1999 and the Year 2000 compliant code was implemented in November 1999.

Additionally, a vendor is currently performing the Pension Benefit Payment Processing system transactions. The vendor completed remediation of this system in December 1998. Validation and testing of this system was completed in October 1999 and implemented in November 1999.

B. PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

The Public Safety Personnel Retirement System (the System) has completed an inventory of computer systems and other electronic equipment that are necessary to conduct the System's operations, which may be affected by the Year 2000 issue. These systems have been tested and validated to comply with any problems created by the Year 2000 issue. The System has also conducted tests with its bank to ensure that the bank is Year 2000 compliant for direct deposit of pension payments.

C. ELECTED OFFICIALS' RETIREMENT PLAN

The Elected Officials' Retirement Plan (the Plan) has completed an inventory of computer systems and other electronic equipment that are necessary to conduct the Plan's operations, which may be affected by the Year 2000 issue. These systems have been tested and validated to comply with any problems created by the Year 2000 issue. The Plan has also conducted tests with its bank to ensure that the bank is Year 2000 compliant for direct deposit of pension payments.

D. CORRECTIONS OFFICER RETIREMENT PLAN

The Corrections Officer Retirement Plan (the Plan) has completed an inventory of computer systems and other electronic equipment that are necessary to conduct the Plan's operations, which may be affected by the Year 2000 issue. These systems have been tested and validated to comply with any problems created by the Year 2000 issue. The Plan has also conducted tests with its bank to ensure that the bank is Year 2000 compliant for direct deposit of pension payments.

DISCRETELY PRESENTED COMPONENT UNITS

A. STATE COMPENSATION FUND

The State Compensation Fund, reported on basis other than Generally Accepted Accounting Principles, did not provide any Year 2000 disclosures in its separately-audited financial statements for the year ended December 31, 1998.

B. UNIVERSITY MEDICAL CENTER

The University Medical Center (UMC) has computer systems with both operational and informational functions that will be impacted by the Year 2000 issue. The UMC is continuously updating and evaluating the assessments of these systems. Systems that are affected by the Year 2000 issue are in the remediation stage, validation/testing stage or the implementation stage.

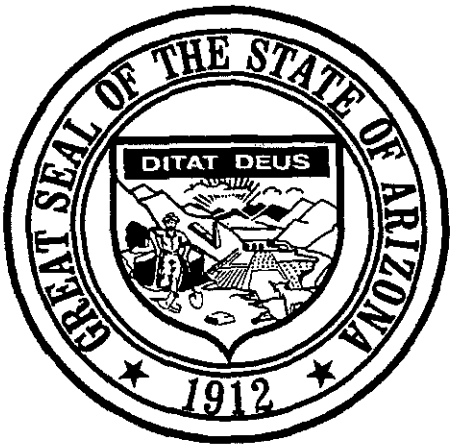
C. ARIZONA POWER AUTHORITY

The Arizona Power Authority did not provide any Year 2000 disclosure in its separately-audited financial statements.

D. WATER INFRASTRUCTURE FINANCE AUTHORITY

The Water Infrastructure Finance Authority utilizes the State's computer systems. The status of these systems is covered above under Primary Government - Agencies and Departments.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the State is or will be Year 2000 ready, that the State's remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be Year 2000 ready.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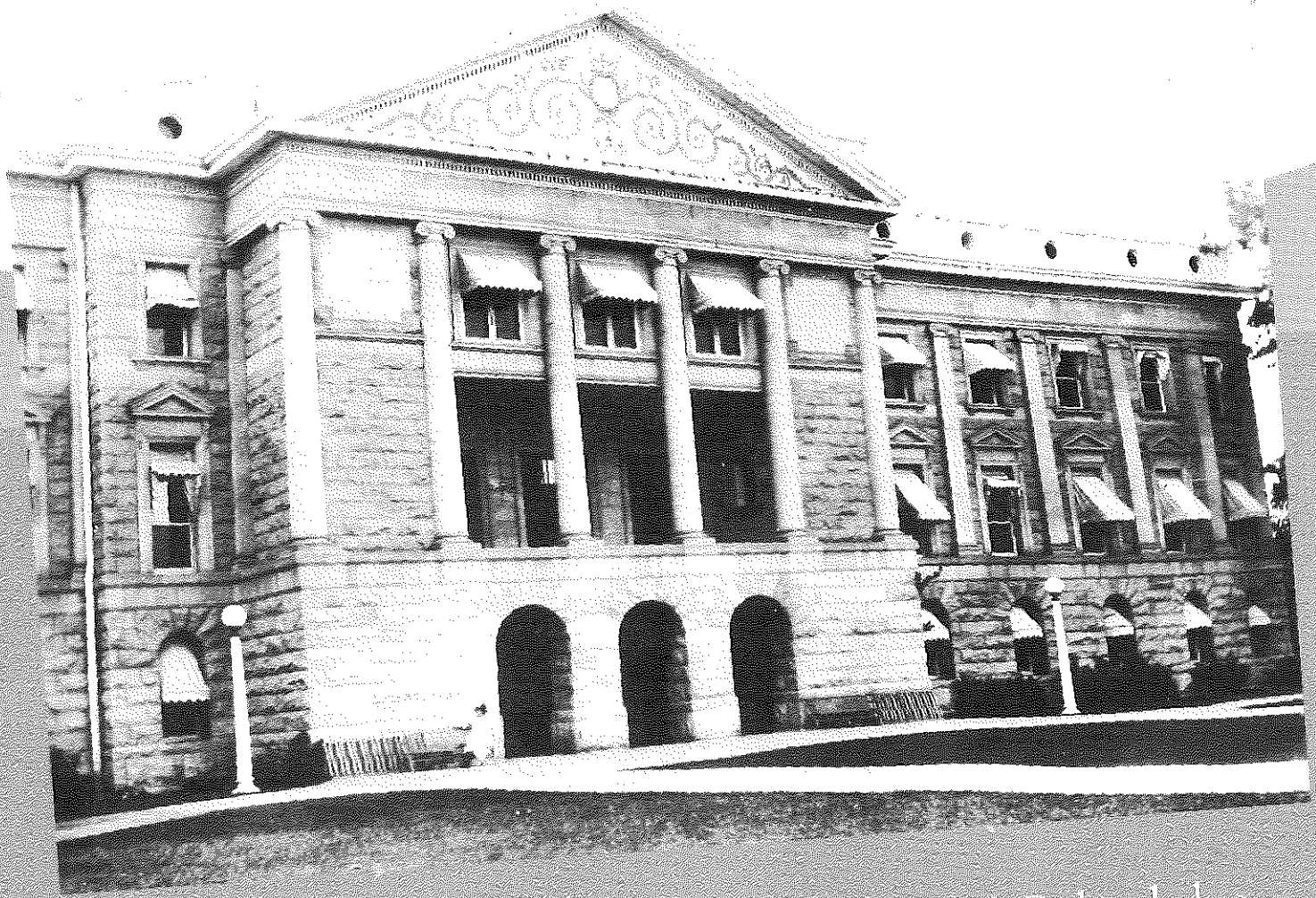
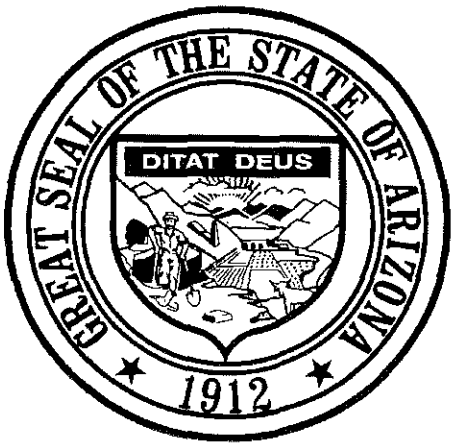


Combining Financial Statements and Schedules



1923 view from the south east with bicycle racks and the first of the pole lights with spherical globes installed that year.

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

The General Government Fund accounts for general government services provided to other State agencies or to the general public.

The Health and Welfare Fund accounts for health and welfare services provided to the general public.

The Inspection and Regulation Fund accounts for inspection and regulatory services provided to the general public.

The Education Fund accounts for educational services provided to the general public.

The Protection and Safety Fund accounts for law enforcement, military, custody and related services provided to the general public.

The Transportation Fund accounts for transportation services provided to the general public by the Arizona Department of Transportation.

The Natural Resources Fund accounts for services that are provided with regard to the natural resources of the State.

STATE OF ARIZONA
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	GENERAL GOVERNMENT	HEALTH & WELFARE	INSPECTION & REGULATION	EDUCATION	PROTECTION & SAFETY
ASSETS					
Cash and investments	$ 81,499	$ 391,624	$ 70,814	$ 1,692	$ 17,548
Receivables, net of allowances:					
Taxes	849	10,731	-	-	-
Interest	228	1,591	68	2	8
Other	8,942	9,260	177	3	158
Due from U.S. Government	-	2	-	-	-
Due from local governments	-	2,600	47	-	-
Due from other Funds	8,701	10,233	4,132	-	1,945
Inventories, at cost	-	-	-	-	1,846
Total Assets	$ 100,219	$ 426,041	$ 75,238	$ 1,697	$ 21,505
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 4,256	$ 39,452	$ 2,806	$ 13	$ 2,936
Accrued liabilities	840	784	995	5	164
Due to local governments	-	111	-	-	-
Due to others	-	103	-	-	-
Due to other Funds	6,479	660	386	-	-
Deferred revenue	-	2,095	-	-	-
Current portion of insurance losses	-	7	-	-	-
Other	1	764	50	1	110
Total Liabilities	11,576	43,976	4,237	19	3,210
Fund Balances:					
Reserved	13,148	6,225	1,069	6	1,426
Unreserved	75,495	375,840	69,932	1,672	16,869
Total Fund Balances	88,643	382,065	71,001	1,678	18,295
Total Liabilities and Fund Balances	$ 100,219	$ 426,041	$ 75,238	$ 1,697	$ 21,505

TRANSPORTATION	NATURAL RESOURCES	TOTAL
$ 485,982	$ 126,021	$ 1,175,180
165,884	-	177,464
3,972	511	6,380
29,900	96	48,536
45,976	-	45,978
19,887	-	22,534
1,677	10,249	36,937
3,781	-	5,627
$ 757,059	$ 136,877	$ 1,518,636
$ 96,925	$ 3,184	$ 149,572
8,529	607	11,924
135,923	-	136,034
-	-	103
21,191	617	29,333
-	-	2,095
-	-	7
5,159	21	6,106
267,727	4,429	335,174
620,257	1,927	644,058
(130,925)	130,521	539,404
489,332	132,448	1,183,462
$ 757,059	$ 136,877	$ 1,518,636

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	GENERAL GOVERNMENT	HEALTH & WELFARE	INSPECTION & REGULATION	EDUCATION	PROTECTION & SAFETY
REVENUES					
Taxes:					
Sales	$ 79	$ 7,036	$ -	$ -	$ -
Motor vehicle and fuel	4,000	27,366	-	-	-
Property	-	-	-	-	-
Other	6,876	115,561	19,919	-	13,319
Intergovernmental	14,040	16,536	1,204	1,511	4,105
Licenses, fees and permits	5,448	20,480	55,463	170	6,649
Earnings on investments	2,640	5,637	825	86	313
Sales and charges for services	14,720	157	1,137	152	19,939
Fines, forfeitures and penalties	26,054	11,490	585	-	24,623
Other	11,989	16,504	172	723	3,674
Total Revenues	85,846	220,767	79,305	2,642	72,622
EXPENDITURES					
Current:					
General government	67,960	-	-	-	-
Health and welfare	-	168,982	-	-	-
Inspection and regulation	-	-	63,067	-	-
Education	-	-	-	2,348	-
Protection and safety	-	-	-	-	54,322
Transportation	-	-	-	-	-
Natural resources	-	-	-	-	-
Capital outlay	283	440	2,445	-	1,090
Debt service:					
Principal	2,027	88	45	1	14
Interest	31	40	2	-	3
Total Expenditures	70,301	169,550	65,559	2,349	55,429
Revenues Over (Under) Expenditures	15,545	51,217	13,746	293	17,193
OTHER FINANCING SOURCES (USES)					
Operating transfers in	23,060	19,047	848	20	2,133
Operating transfers out	(11,320)	(42,144)	(7,520)	(19)	(17,430)
Capital lease and installment purchase contracts	-	-	277	-	34
Total Other Financing Sources (Uses)	11,740	(23,097)	(6,395)	1	(15,263)
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	27,285	28,120	7,351	294	1,930
Beginning Fund Balances, as restated	63,333	356,145	63,650	11,256	20,665
Residual Equity Transfers	(1,975)	(2,200)	-	(9,872)	(4,300)
Ending Fund Balances	$ 88,643	$ 382,065	$ 71,001	$ 1,678	$ 18,295

TRANSPORTATION	NATURAL RESOURCES	TOTAL
$ 229,470	$ -	$ 236,585
1,299,562	2,233	1,333,161
-	1,593	1,593
7,490	-	163,165
435,009	11,871	484,276
8,030	29,474	125,714
19,942	6,395	35,838
-	267	36,372
-	201	62,953
20,655	730	54,447
2,020,158	52,764	2,534,104
-	-	67,960
-	-	168,982
-	-	63,067
-	-	2,348
-	-	54,322
1,747,312	-	1,747,312
-	57,052	57,052
11,771	15,413	31,442
-	51	2,226
-	-	76
1,759,083	72,516	2,194,787
261,075	(19,752)	339,317
3,679	28,057	76,844
(271,310)	(2,977)	(352,720)
282	-	593
(267,349)	25,080	(275,283)
(6,274)	5,328	64,034
495,606	128,408	1,139,063
-	(1,288)	(19,635)
$ 489,332	$ 132,448	$ 1,183,462

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	GENERAL GOVERNMENT		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
REVENUES			
Taxes:			
Sales	$ -	$ -	$ -
Property	-	-	-
Luxury	-	6,876	-
Insurance premium	-	-	-
Motor vehicle and fuel	-	4,000	-
Other	-	-	-
Non-Tax Revenues:			
Intergovernmental	-	14,040	-
Licenses, fees and permits	-	5,448	-
Earnings on investments	-	2,628	-
Sales and charges for services	-	14,720	-
Fines, forfeitures and penalties	-	27,884	-
Other	-	5,428	-
Total Revenues	-	81,024	-
EXPENDITURES			
Current:			
General government	48,971	37,574	11,397
Health and welfare	-	-	-
Inspection and regulation	-	-	-
Education	-	-	-
Protection and safety	-	-	-
Transportation	-	-	-
Natural resources	-	-	-
Total Appropriated Expenditures	48,971	37,574	11,397
Non-appropriated expenditures and appropriation transfers	-	52,991	-
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	40,849	-
Operating transfers out	-	-	-
Total Other Financing Sources (Uses)	-	40,849	-
Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	31,308	-
Beginning Fund Balances, as restated	-	62,404	-
Residual Equity Transfers	-	(1,975)	-
Ending Fund Balances	$ -	$ 91,737	$ -

HEALTH & WELFARE			INSPECTION & REGULATION		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
$ -	$ 7,066	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	112,735	-	-	-	-
-	-	-	-	12,666	-
-	26,318	-	-	-	-
-	1,958	-	-	7,243	-
-	44,235	-	-	1,204	-
-	22,166	-	-	55,200	-
-	18,905	-	-	810	-
-	157	-	-	1,137	-
-	12,665	-	-	570	-
-	1,773	-	-	188	-
-	247,978	-	-	79,018	-
-	-	-	-	-	-
46,193	32,959	13,234	-	-	-
-	-	-	57,712	53,898	3,814
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
46,193	32,959	13,234	57,712	53,898	3,814
-	239,343	-	-	17,516	-
-	84,301	-	-	840	-
-	-	-	-	(1,013)	-
-	84,301	-	-	(173)	-
-	59,977	-	-	7,431	-
-	373,660	-	-	63,620	-
-	(2,200)	-	-	-	-
$ -	$ 431,437	$ -	$ -	$ 71,051	$ -

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	EDUCATION		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
REVENUES			
Taxes:			
Sales	$ -	$ -	$ -
Property	-	-	-
Luxury	-	-	-
Insurance premium	-	-	-
Motor vehicle and fuel	-	-	-
Other	-	-	-
Non-Tax Revenues:			
Intergovernmental	-	1,511	-
Licenses, fees and permits	-	170	-
Earnings on investments	-	42	-
Sales and charges for services	-	77	-
Fines, forfeitures and penalties	-	-	-
Other	-	292	-
Total Revenues	-	2,092	-
EXPENDITURES			
Current:			
General government	-	-	-
Health and welfare	-	-	-
Inspection and regulation	-	-	-
Education	2,970	1,981	989
Protection and safety	-	-	-
Transportation	-	-	-
Natural resources	-	-	-
Total Appropriated Expenditures	2,970	1,981	989
Non-appropriated expenditures and appropriation transfers	-	36	-
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	75	-
Beginning Fund Balances, as restated	-	10,208	-
Residual Equity Transfers	-	(9,872)	-
Ending Fund Balances	$ -	$ 411	$ -

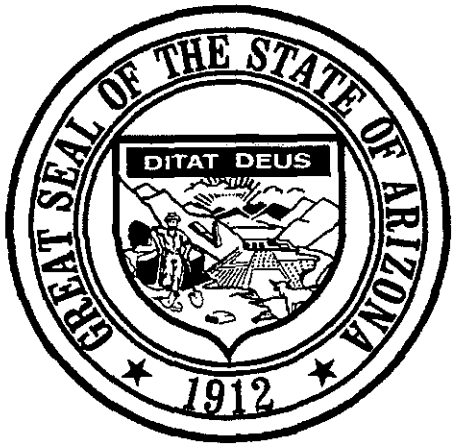
PROTECTION & SAFETY			TRANSPORTATION		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
$ -	$ -	$ -	$ -	$ 229,470	$ -
-	-	-	-	9,886	-
-	2,583	-	-	-	-
-	10,735	-	-	-	-
-	-	-	-	854,862	-
-	-	-	-	-	-
-	4,106	-	-	420,558	-
-	6,649	-	-	190,242	-
-	304	-	-	24,347	-
-	213	-	-	136,376	-
-	24,624	-	-	1,134	-
-	5,286	-	-	9,487	-
-	54,500	-	-	1,876,362	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
25,523	23,468	2,055	-	-	-
-	-	-	920,810	518,556	402,254
-	-	-	-	-	-
25,523	23,468	2,055	920,810	518,556	402,254
-	31,034	-	-	1,417,647	-
-	2,362	-	-	66,740	-
-	-	-	-	-	-
-	2,362	-	-	66,740	-
-	2,360	-	-	6,899	-
-	17,719	-	-	424,763	-
-	(4,300)	-	-	-	-
$ -	$ 15,779	$ -	$ -	$ 431,662	$ -

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	NATURAL RESOURCES		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
REVENUES			
Taxes:			
Sales	$ -	$ -	$ -
Property	-	1,593	-
Luxury	-	-	-
Insurance premium	-	-	-
Motor vehicle and fuel	-	2,232	-
Other	-	-	-
Non-Tax Revenues:			
Intergovernmental	-	10,944	-
Licenses, fees and permits	-	29,473	-
Earnings on investments	-	6,437	-
Sales and charges for services	-	268	-
Fines, forfeitures and penalties	-	201	-
Other	-	2,416	-
Total Revenues	-	53,564	-
EXPENDITURES			
Current:			
General government	-	-	-
Health and welfare	-	-	-
Inspection and regulation	-	-	-
Education	-	-	-
Protection and safety	-	-	-
Transportation	-	-	-
Natural resources	25,639	21,067	4,572
Total Appropriated Expenditures	25,639	21,067	4,572
Non-appropriated expenditures and appropriation transfers	-	58,116	-
OTHER FINANCING SOURCES			
Operating transfers in	-	31,378	-
Operating transfers out	-	-	-
Total Other Financing Sources (Uses)	-	31,378	-
Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	5,759	-
Beginning Fund Balances, as restated	-	127,996	-
Residual Equity Transfers	-	(1,288)	-
Ending Fund Balances	$ -	$ 132,467	$ -

TOTAL		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
$ -	$ 236,536	$ -
-	11,479	-
-	122,194	-
-	23,401	-
-	887,412	-
-	9,201	-
-	496,598	-
-	309,348	-
-	53,473	-
-	152,948	-
-	67,078	-
-	24,870	-
-	2,394,538	-
48,971	37,574	11,397
46,193	32,959	13,234
57,712	53,898	3,814
2,970	1,981	989
25,523	23,468	2,055
920,810	518,556	402,254
25,639	21,067	4,572
1,127,818	689,503	438,315
-	1,816,683	-
-	226,470	-
-	(1,013)	-
-	225,457	-
-	113,809	-
-	1,080,370	-
-	(19,635)	-
$ -	$ 1,174,544	$ -


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

The Department of Transportation Fund administers the payment of principal and interest on the 1990 Series State of Arizona Highway Revenue Bond issues, the 1991 Series A and 1992 Series B State of Arizona Subordinated Highway Revenue Bond issues, the 1993 Series State of Arizona Highway Revenue Refunding Bond issue and the 1992 Series A, 1993 Series A and 1993 Series B State of Arizona Subordinated Highway Revenue Refunding Bond issues.

The Maricopa Regional Area Road Fund administers the payment of principal and interest on the 1988 Series A, 1991 Series A, 1992 Series A Refunding, 1992 Series B and 1998 Series A Transportation Board of the State of Arizona Transportation Excise Tax Revenue Bond issues, the 1989 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issue, the 1993 Series and 1995 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issues and the 1995 Series B Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Refunding Bond issue.

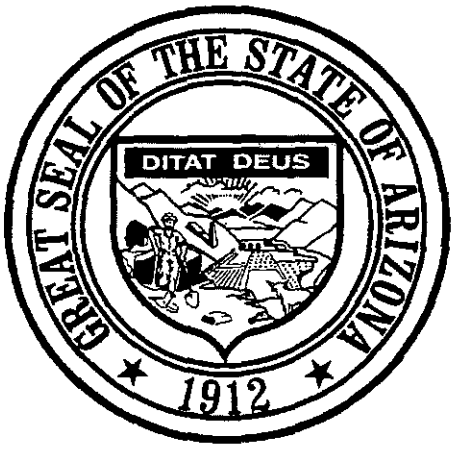
The Certificates of Participation Fund administers the payment of principal and interest on the State of Arizona Certificates of Participation.

STATE OF ARIZONA
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	TOTAL
ASSETS				
Cash and investments	$ 1,504	$ 31,037	$ 4,223	$ 36,764
Interest receivable	630	1,565	-	2,195
Total Assets	$ 2,134	$ 32,602	$ 4,223	$ 38,959
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ -	$ -	$ 4	$ 4
Due to others	-	-	2,983	2,983
Total Liabilities	-	-	2,987	2,987
Fund Balances, all reserved	2,134	32,602	1,236	35,972
Total Liabilities and Fund Balances	$ 2,134	$ 32,602	$ 4,223	$ 38,959

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	TOTAL
REVENUES				
Earnings on investments	$ 1,706	$ 5,943	$ 1,274	$ 8,923
Other	-	-	1,096	1,096
Total Revenues	1,706	5,943	2,370	10,019
EXPENDITURES				
Current:				
Transportation	33	740	-	773
Principal	43,805	106,765	25,005	175,575
Interest and other fiscal charges	31,090	43,252	14,047	88,389
Total Expenditures	74,928	150,757	39,052	264,737
Revenues (Under) Expenditures	(73,222)	(144,814)	(36,682)	(254,718)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	74,192	152,309	37,286	263,787
Operating transfers out	(211)	(2,918)	-	(3,129)
Proceeds of refunding bonds	-	28,826	-	28,826
Payment to refunded bond escrow agent	-	(27,390)	-	(27,390)
Total Other Financing Sources	73,981	150,827	37,286	262,094
Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	759	6,013	604	7,376
Beginning Fund Balances	1,375	26,589	632	28,596
Ending Fund Balances	$ 2,134	$ 32,602	$ 1,236	$ 35,972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CAPITAL PROJECTS FUNDS

Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary, Non-Expendable Trust, Pension Trust or University Funds).

The Maricopa Regional Area Road Financed Fund administers the bond proceeds from the 1998 Series A and the 1999 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issue. These monies are spent on the construction of State highways within Maricopa County.

The Certificates of Participation Financed Fund administers the proceeds from the State of Arizona Certificates of Participation.

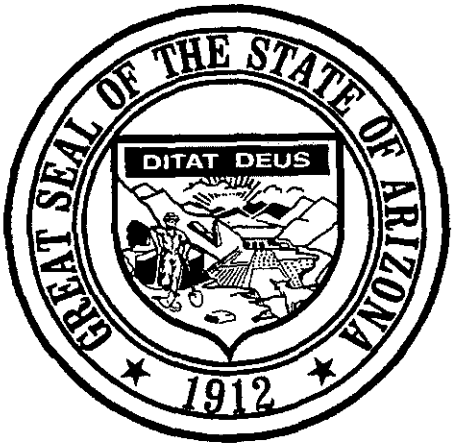
The Other Capital Projects Fund consists of the Correction Fund, State Parks Enhancement Fund, Clifton Flood Control Project Fund, Veterans Nursing Home General Fund - Veterans Services Administration, Game and Fish Capital Improvement Fund, State Lake Improvement Fund, Emergency Dam Repair Fund and the Non-Emergency Repair Fund.

STATE OF ARIZONA
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	MARICOPA RARF FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	OTHER	TOTAL
ASSETS				
Cash and investments	$ 18,770	$ -	$ 54,547	$ 73,317
Receivables, net of allowances:				
Taxes	-	-	2,009	2,009
Interest	555	-	102	657
Due from other Funds	5,876	-	552	6,428
Total Assets	$ 25,201	$ -	$ 57,210	$ 82,411
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 15,235	$ -	$ 1,401	$ 16,636
Accrued liabilities	-	-	145	145
Due to other Funds	1,676	-	215	1,891
Total Liabilities	16,911	-	1,761	18,672
Fund Balances:				
Reserved	8,290	-	25,871	34,161
Unreserved	-	-	29,578	29,578
Total Fund Balances	8,290	-	55,449	63,739
Total Liabilities and Fund Balances	$ 25,201	$ -	$ 57,210	$ 82,411

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	MARICOPA RARF FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	OTHER	TOTAL
REVENUES				
Taxes:				
Motor vehicle and fuel	$ -	$ -	$ 5,971	$ 5,971
Property	-	-	143	143
Other	-	-	24,693	24,693
Licenses, fees and permits	-	-	2,382	2,382
Earnings on investments	4,440	-	1,361	5,801
Other	72	-	2,183	2,255
Total Revenues	4,512	-	36,733	41,245
EXPENDITURES				
Capital outlay	148,243	104	54,828	203,175
Revenues (Under) Expenditures	(143,731)	(104)	(18,095)	(161,930)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	41,300	41,300
Operating transfers out	(551)	-	(15,567)	(16,118)
Proceeds from sale of bonds	152,572	-	-	152,572
Certificate of participation proceeds	-	1	-	1
Total Other Financing Sources	152,021	1	25,733	177,755
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	8,290	(103)	7,638	15,825
Beginning Fund Balances	-	103	47,811	47,914
Ending Fund Balances	$ 8,290	$ -	$ 55,449	$ 63,739


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

ENTERPRISE FUNDS

Enterprise Funds account for operations (a) financed and operated in a manner similar to private business enterprises, where the State intends that the cost of providing goods or services to the general public be financed or recovered primarily through service charges, or (b) where the State decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Industrial Commission administers and enforces the employment laws of the State, including the regulation of workers' compensation.

The Lottery Fund accounts for lottery ticket revenues, administrative and operating expenses and distribution of revenue to other Funds.

The Arizona Exposition and State Fair provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

The Arizona Highways Magazine Fund publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

The Arizona Correctional Industries Fund employs prison inmates in its manufacturing, service and agricultural operations for the sale of goods and services primarily to other State agencies (including the Arizona Department of Corrections) and political subdivisions.

The Arizona Industries for the Blind Fund accounts for the manufacturing, sale, distribution and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

The Healthcare Group of Arizona administers prepaid medical coverage mostly to small uninsured businesses with 1 to 40 employees and employees of political subdivisions. The HCGA processes premium billing, collections and fund disbursement, data analysis and is responsible for the regulatory oversight of the health plans.

The Arizona Beef Council is a not-for-profit organization that was created to establish a self-financed program to help develop and maintain state, national and foreign markets for beef and beef products.

ComCare, Inc. is a nonprofit corporation responsible for the administration, coordination and delivery of comprehensive behavioral health services to residents of Maricopa County through a network of more than 130 provider agencies/individuals.

The Other Enterprise Fund consists of the Arizona Historical Society Revolving Fund, Mines and Mineral Resources Printing Revolving Fund, Game and Fish Publications Revolving Fund, Department of Library and Archives Gift Shop Revolving Fund, Arizona State Hospital Enterprise Fund, Southern Arizona Mental Health Center Enterprise Fund, Land Department Resource Analysis Revolving Fund, State Parks Publications and Souvenirs Revolving Fund, Real Estate Printing Revolving Fund, Education Commodity Fund, Indian Affairs Commission Publications Revolving Fund, School for the Deaf and Blind Cooperative Services, School for Deaf and Blind Facilities Use Fund and the State Home for Veterans.

STATE OF ARIZONA
COMBINING BALANCE SHEET
ENTERPRISE FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	INDUSTRIAL COMMISSION	LOTTERY	ARIZONA EXPOSITION & STATE FAIR	ARIZONA HIGHWAYS MAGAZINE	ARIZONA CORRECTIONAL INDUSTRIES
ASSETS					
Current Assets:					
Cash and investments	$ 549	$ 25,677	$ 7,046	$ 3,222	$ 4,134
Collateral investment pool	38,453	-	-	-	-
Receivables, net of allowances:					
Interest	2,309	-	140	39	30
Other	53	11,397	89	587	3,192
Due from other Funds	-	-	-	-	55
Inventories, at cost	-	1,187	-	2,815	3,317
Other	-	-	12	606	24
Total Current Assets	41,364	38,261	7,287	7,269	10,752
Long-term Assets:					
Investments	225,351	-	-	-	-
Other	-	5,847	-	-	-
Fixed assets:					
Property and equipment	19,216	8,676	22,846	4,194	8,354
Less: accumulated depreciation	(4,796)	(4,508)	(16,207)	(1,774)	(4,877)
Total Long-term Assets	239,771	10,015	6,639	2,420	3,477
Total Assets	$ 281,135	$ 48,276	$ 13,926	$ 9,689	$ 14,229
LIABILITIES AND FUND EQUITY					
Current Liabilities:					
Accounts payable	$ 726	$ 1,991	$ 149	$ 246	$ 887
Accrued liabilities	-	-	127	237	6
Obligations under securities loan agreements	38,453	-	-	-	-
Due to local governments	-	7,580	-	-	-
Due to other Funds	-	10,838	-	2	-
Deferred revenue	-	-	-	4,258	-
Current portion of insurance losses	11,461	-	-	-	-
Current portion of long-term debt	1,000	-	-	-	-
Other	-	19,935	39	-	185
Total Current Liabilities	51,640	40,344	315	4,743	1,078
Long-term Liabilities:					
Accrued compensated absences	-	323	150	-	176
Accrued insurance losses	142,522	-	-	-	-
Long-term debt:					
Certificates of participation	9,800	-	-	-	-
Other	-	-	-	-	-
Total Long-term Liabilities	152,322	323	150	-	176
Total Liabilities	203,962	40,667	465	4,743	1,254
Fund Equity:					
Contributed capital	-	-	-	1,539	3,167
Retained earnings					
Reserved	79	45	5,173	-	-
Unreserved	77,094	7,564	8,288	3,407	9,808
Total Fund Equity	77,173	7,609	13,461	4,946	12,975
Total Liabilities and Fund Equity	$ 281,135	$ 48,276	$ 13,926	$ 9,689	$ 14,229

ARIZONA INDUSTRIES FOR THE BLIND	HEALTHCARE GROUP OF ARIZONA	ARIZONA BEEF COUNCIL	COMCARE	OTHER	TOTAL
$ 497	$ 5,439	$ 139	$ 16,322	$ 3,291	$ 66,316
-	-	-	-	-	38,453
-	19	-	-	2	2,539
1,553	5	56	5,444	6	22,382
-	-	-	-	5	60
2,522	-	-	-	156	9,997
-	-	-	1,763	-	2,405
4,572	5,463	195	23,529	3,460	142,152
-	-	-	-	-	225,351
-	-	-	-	-	5,847
5,776	76	42	100	14,481	83,761
(2,945)	(37)	(32)	-	(1,754)	(36,930)
2,831	39	10	100	12,727	278,029
$ 7,403	$ 5,502	$ 205	$ 23,629	$ 16,187	$ 420,181
$ 1,423	$ -	$ 31	$ 7,350	$ 322	$ 13,125
108	20	-	-	165	663
-	-	-	-	-	38,453
-	-	-	-	-	7,580
-	-	-	-	6	10,846
-	2,548	-	-	-	6,806
-	-	-	-	-	11,461
-	-	-	-	-	1,000
112	-	-	-	-	20,271
1,643	2,568	31	7,350	493	110,205
127	-	-	-	-	776
-	-	-	-	-	142,522
-	-	-	-	-	9,800
75	-	-	-	-	75
202	-	-	-	-	153,173
1,845	2,568	31	7,350	493	263,378
927	-	-	-	-	5,633
-	-	-	-	-	5,297
4,631	2,934	174	16,279	15,694	145,873
5,558	2,934	174	16,279	15,694	156,803
$ 7,403	$ 5,502	$ 205	$ 23,629	$ 16,187	$ 420,181

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

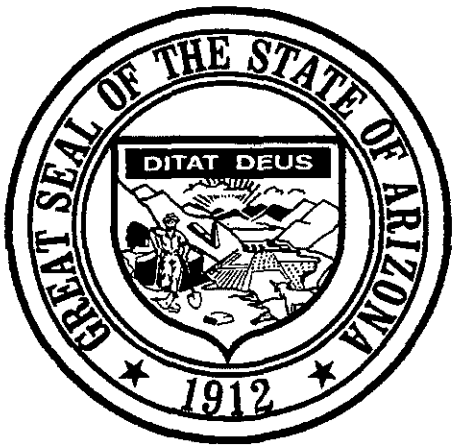
	INDUSTRIAL COMMISSION	LOTTERY	ARIZONA EXPOSITION & STATE FAIR	ARIZONA HIGHWAYS MAGAZINE	ARIZONA CORRECTIONAL INDUSTRIES
OPERATING REVENUES					
Sales and charges for services:					
Lottery	$ -	$ 268,263	$ -	$ -	$ -
Other	-	-	8,958	10,309	16,703
Motor vehicle and fuel taxes	-	-	-	-	-
Licenses, fees and permits	-	12	-	-	-
Earnings on investments	13,539	-	-	-	-
Other	10,561	883	1,006	608	-
Total Operating Revenues	24,100	269,158	9,964	10,917	16,703
OPERATING EXPENSES					
Cost of sales and benefits	4,915	168,540	1,560	5,685	14,051
Personal services	-	3,988	4,088	2,304	837
Contractual services	1,149	328	2,283	514	32
Aid to local governments	-	40,211	-	-	-
Depreciation and amortization	495	651	1,016	358	672
Insurance	-	40	319	-	-
Other	4,224	10,690	960	2,682	193
Total Operating Expenses	10,783	224,448	10,226	11,543	15,785
Operating Income (Loss)	13,317	44,710	(262)	(626)	918
NON-OPERATING REVENUES (EXPENSES)					
(Loss) on sale of fixed assets	-	-	-	(280)	-
Interest income	162	-	369	228	173
Interest expense	(517)	-	-	-	-
Other	(50)	-	400	-	-
Net Non-operating Income (Loss)	(405)	-	769	(52)	173
Income (Loss) Before Operating Transfers	12,912	44,710	507	(678)	1,091
OPERATING TRANSFERS					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(42,980)	(135)	(174)	(244)
Net Operating Transfers	-	(42,980)	(135)	(174)	(244)
Net Income (Loss)	12,912	1,730	372	(852)	847
Beginning Retained Earnings, as restated	64,261	7,379	15,089	4,259	9,961
Residual Equity Transfers	-	(1,500)	(2,000)	-	(1,000)
Ending Retained Earnings	$ 77,173	$ 7,609	$ 13,461	$ 3,407	$ 9,808

ARIZONA INDUSTRIES FOR THE BLIND	HEALTHCARE GROUP OF ARIZONA	ARIZONA BEEF COUNCIL	COMCARE	OTHER	TOTAL
$ -	$ -	$ -	$ -	$ -	$ 268,263
11,480	20,476	2	106,567	10,451	184,946
-	-	-	-	93	93
-	-	610	-	20	642
-	-	-	-	16	13,555
-	-	5	-	476	13,539
11,480	20,476	617	106,567	11,056	481,038
7,616	27,741	-	65,735	246	296,089
2,327	476	144	26,321	8,430	48,915
139	135	5	7,869	2,470	14,924
-	-	-	-	5	40,216
555	8	5	2,952	488	7,200
-	-	-	-	179	538
1,599	220	520	3,396	2,315	26,799
12,236	28,580	674	106,273	14,133	434,681
(756)	(8,104)	(57)	294	(3,077)	46,357
-	-	-	(1,370)	-	(1,650)
-	283	7	1,087	4	2,313
(19)	-	-	-	-	(536)
1,186	-	-	-	19	1,555
1,167	283	7	(283)	23	1,682
411	(7,821)	(50)	11	(3,054)	48,039
-	8,000	-	-	4,518	12,518
(295)	(43)	-	-	(781)	(44,652)
(295)	7,957	-	-	3,737	(32,134)
116	136	(50)	11	683	15,905
4,515	2,798	224	16,268	15,016	139,770
-	-	-	-	(5)	(4,505)
$ 4,631	$ 2,934	$ 174	$ 16,279	$ 15,694	$ 151,170

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	INDUSTRIAL COMMISSION	LOTTERY	ARIZONA EXPOSITION & STATE FAIR	ARIZONA HIGHWAYS MAGAZINE
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 13,317	$ 44,710	$ (262)	$ (626)
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization	495	651	1,016	358
Net decrease in fair value of investments	6,328	-	-	-
Total Adjustments	6,823	651	1,016	358
Changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	(421)	(8,418)	3	10
Decrease in due from others	-	-	-	-
(Increase) decrease in due from other Funds	-	-	-	-
(Increase) decrease in inventories, at cost	-	620	-	(43)
(Increase) decrease in other current assets	-	-	7	(285)
Decrease in other long-term assets	-	124	-	-
Increase (decrease) in accounts payable	95	467	16	58
Increase (decrease) in accrued liabilities	-	-	13	2
Increase in due to local governments	-	6,157	-	-
Increase in due to other Funds	-	5,260	-	-
(Decrease) in deferred revenue	-	-	-	(109)
Increase (decrease) in other current liabilities	(497)	2,261	1	-
Increase in accrued compensated absences	-	50	1	-
(Decrease) in accrued insurance losses	(5,886)	-	-	-
Net Changes in Assets and Liabilities	(6,709)	6,521	41	(367)
Net Cash Provided (Used) by Operating Activities	13,431	51,882	795	(635)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Interest expense	-	-	-	-
Other non-operating revenue	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	(42,980)	(135)	(174)
Residual equity transfers	-	(1,500)	(2,000)	-
Net Cash Provided (Used) by Non-capital Financing Activities	-	(44,480)	(2,135)	(174)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	(487)	(52)	(384)	(224)
Interest payments under certificates of participation or bonds	(517)	-	-	-
Principal payments under leases and installment purchases	(1,000)	(186)	(122)	-
Proceeds in funds received by trustee	162	-	-	-
Pari-mutuel racing receipts	-	-	400	-
Contributions (to) other Funds	-	-	-	(500)
Net Cash (Used) by Capital and Related Financing Activities	(1,842)	(238)	(106)	(724)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	142,902	-	-	-
Purchase of investments	(154,712)	-	-	-
Interest and dividends on investments	-	-	463	275
Change in cash collateral received from securities lending transactions	(10,964)	-	-	-
Change in long-term funds held by trustee	-	-	-	-
Net Cash Provided (Used) by Investing Activities	(22,774)	-	463	275
Net Increase (Decrease) in Cash and Cash Equivalents	(11,185)	7,164	(983)	(1,258)
Cash and Cash Equivalents - Beginning, as restated	50,187	18,513	8,029	4,480
Cash and Cash Equivalents - Ending	$ 39,002	$ 25,677	$ 7,046	$ 3,222

ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA INDUSTRIES FOR THE BLIND	HEALTHCARE GROUP OF ARIZONA	ARIZONA BEEF COUNCIL	COMCARE	OTHER	TOTAL
$ 918	$ (756)	$ (8,104)	$ (57)	$ 294	$ (3,077)	$ 46,357
672	555	8	5	2,952	488	7,200
-	-	-	-	-	-	6,328
672	555	8	5	2,952	488	13,528
9	(599)	(5)	17	6,255	(1)	(3,150)
418	-	-	-	-	-	418
7	-	-	-	-	(5)	2
272	(308)	-	-	-	(92)	449
61	-	-	1	1,166	-	950
-	-	-	-	-	-	124
249	423	-	(20)	(11,412)	67	(10,057)
(8)	51	2	-	(2,336)	127	(2,149)
-	-	-	-	-	-	6,157
-	-	-	-	-	6	5,266
(13)	-	(469)	-	-	-	(591)
122	49	-	-	-	-	1,936
9	17	-	-	-	-	77
-	-	-	-	-	-	(5,886)
1,126	(367)	(472)	(2)	(6,327)	102	(6,454)
2,716	(568)	(8,568)	(54)	(3,081)	(2,487)	53,431
-	(19)	-	-	-	-	(19)
-	1,186	-	-	-	19	1,205
-	-	8,000	-	-	4,518	12,518
(244)	(295)	(43)	-	-	(781)	(44,652)
(1,000)	-	-	-	-	(5)	(4,505)
(1,244)	872	7,957	-	-	3,751	(35,453)
(522)	(543)	(35)	(2)	-	(54)	(2,303)
-	-	-	-	-	-	(517)
-	-	-	(2)	(1,029)	-	(2,339)
-	-	-	-	-	-	162
-	-	-	-	-	-	400
-	-	-	-	-	-	(500)
(522)	(543)	(35)	(4)	(1,029)	(54)	(5,097)
-	-	-	-	-	-	142,902
-	-	-	-	-	-	(154,712)
175	-	295	7	1,087	2	2,304
-	-	-	-	-	-	(10,964)
-	-	-	-	555	-	555
175	-	295	7	1,642	2	(19,915)
1,125	(239)	(351)	(51)	(2,468)	1,212	(7,034)
3,009	736	5,790	190	18,790	2,079	111,803
$ 4,134	$ 497	$ 5,439	$ 139	$ 16,322	$ 3,291	$ 104,769


GREAT SEAL OF THE STATE OF ARIZONA
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INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided by one State department or agency to other State departments or agencies on a cost-reimbursement basis.

The Risk Management Fund provides insurance coverage to all State agencies using an optimal combination of self-insurance and private excess insurance.

The Transportation Equipment Fund administers the purchase, storage and distribution of supplies, equipment and furniture for other Department of Transportation Funds.

Workers' Compensation receives monies from State agencies and uses these monies to pay for insurance and risk management services including loss control services and self-insured liability losses.

The Technologies and Telecommunications Fund receives monies from State agencies for services related to the operation of the data processing and telecommunications programs.

Motor Pool receives monies from State agencies for use of State vehicles and uses these monies for operation of the State Motor Pool.

The Other Internal Service Fund consists of the Department of Administration's Special Services Revolving Fund, Co-Op State Purchasing Agreement ARS §41-2632 Fund, State Surplus Property Fund, Federal Surplus Property Fund, Personnel Division Fund, Information Technology Fund, AFIS II Collections Fund and Telecommunications Fund; Government Information Technology Agency's Personnel Division Fund, Information Technology Fund and Technology and Telecommunications Fund; Department of Education's Internal Services Fund and Printing Fund; Department of Health Services' Internal Services Fund; Land Department Interagency Agreement Fund and the Department of Water Resources Intergovernmental Agreement Fund.

STATE OF ARIZONA
COMBINING BALANCE SHEET
INTERNAL SERVICE FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	WORKERS' COMPENSATION	TECHNOLOGIES & TELE-COMMUNICATIONS	MOTOR POOL
ASSETS					
Current Assets:					
Cash and investments	$ 33,527	$ 5,330	$ 20,205	$ 6,546	$ 5,481
Receivables, net of allowances:					
Interest	-	43	-	-	-
Other	42	88	-	1,453	337
Due from local governments	-	20	-	-	-
Due from other Funds	1	1,775	1	1,926	957
Inventories, at cost	-	2,561	-	-	14
Other	1,093	-	833	-	-
Total Current Assets	34,663	9,817	21,039	9,925	6,789
Long-term Assets:					
Fixed assets:					
Property and equipment	154	97,806	-	30,677	34,893
Less: accumulated depreciation	(83)	(62,485)	-	(22,660)	(17,210)
Total Long-term Assets	71	35,321	-	8,017	17,683
Total Assets	$ 34,734	$ 45,138	$ 21,039	$ 17,942	$ 24,472
LIABILITIES AND FUND EQUITY					
Current Liabilities:					
Accounts payable	$ 1,744	$ 563	$ 705	$ 2,552	$ 423
Accrued liabilities	105	909	26	-	-
Due to others	-	-	-	-	-
Due to other Funds	23	-	11	5	1
Current portion of leases and installment purchases	-	-	-	-	-
Other	1	-	-	-	-
Total Current Liabilities	1,873	1,472	742	2,557	424
Long-term Liabilities:					
Accrued compensated absences	152	-	47	604	16
Accrued insurance losses	136,411	-	83,337	-	-
Total Long-term Liabilities	136,563	-	83,384	604	16
Total Liabilities	138,436	1,472	84,126	3,161	440
Fund Equity:					
Contributed capital	-	6,107	-	687	15,952
Retained earnings					
Reserved	-	9,985	-	62	1,051
Unreserved	(103,702)	27,574	(63,087)	14,032	7,029
Total Fund Equity	(103,702)	43,666	(63,087)	14,781	24,032
Total Liabilities and Fund Equity	$ 34,734	$ 45,138	$ 21,039	$ 17,942	$ 24,472

OTHER	TOTAL
$ 7,511	$ 78,600
4	47
222	2,142
-	20
695	5,355
543	3,118
-	1,926
8,975	91,208
4,101	167,631
(2,797)	(105,235)
1,304	62,396
$ 10,279	$ 153,604
$ 1,230	$ 7,217
372	1,412
124	124
1,062	1,102
11	11
7	8
2,806	9,874
73	892
-	219,748
73	220,640
2,879	230,514
-	22,746
507	11,605
6,893	(111,261)
7,400	(76,910)
$ 10,279	$ 153,604

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

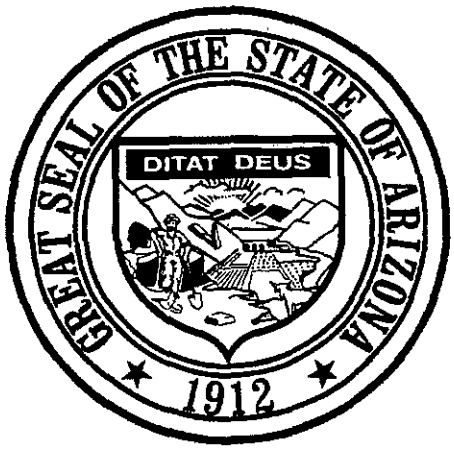
	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	WORKERS' COMPENSATION	TECHNOLOGIES & TELE-COMMUNICATIONS	MOTOR POOL
OPERATING REVENUES					
Sales and charges for services	$ 56,514	$ 24,455	$ 22,236	$ 23,097	$ 8,334
Other	-	3,397	-	4	-
Total Operating Revenues	56,514	27,852	22,236	23,101	8,334
OPERATING EXPENSES					
Cost of sales and benefits	-	9,201	-	8,491	2,898
Personal services	2,436	8,038	611	7,970	359
Contractual services	10,343	461	8,863	587	152
Aid to local governments	-	-	-	-	-
Depreciation and amortization	41	6,664	-	2,562	4,297
Insurance	55,550	856	15,196	231	736
Other	560	1,125	310	1,832	168
Total Operating Expenses	68,930	26,345	24,980	21,673	8,610
Operating Income (Loss)	(12,416)	1,507	(2,744)	1,428	(276)
NON-OPERATING REVENUES (EXPENSES)					
Gain (loss) on sale of fixed assets	(1)	(94)	(1)	-	387
Interest income	-	169	-	-	-
Other	128	-	-	2	673
Total Non-operating Income (Expense)	127	75	(1)	2	1,060
Income (Loss) Before Operating Transfers	(12,289)	1,582	(2,745)	1,430	784
OPERATING TRANSFERS					
Operating transfers in	56	-	41	11	-
Operating transfers out	(9,980)	(1,289)	(203)	(712)	(43)
Net Operating Transfers	(9,924)	(1,289)	(162)	(701)	(43)
Net Income (Loss)	(22,213)	293	(2,907)	729	741
Beginning Retained Earnings, as restated	(81,489)	37,266	(60,180)	13,865	7,339
Residual Equity Transfers	-	-	-	(500)	-
Ending Retained Earnings	$ (103,702)	$ 37,559	$ (63,087)	$ 14,094	$ 8,080

OTHER	TOTAL
$ 18,741	$ 153,377
2,505	5,906
21,246	159,283
4,288	24,878
8,219	27,633
2,744	23,150
1,230	1,230
474	14,038
192	72,761
2,815	6,810
19,962	170,500
1,284	(11,217)
3	294
-	169
5	808
8	1,271
1,292	(9,946)
1,947	2,055
(2,000)	(14,227)
(53)	(12,172)
1,239	(22,118)
6,161	(77,038)
-	(500)
$ 7,400	$ (99,656)

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	WORKERS' COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ (12,416)	$ 1,507	$ (2,744)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	41	6,664	-
Changes in assets and liabilities:			
(Increase) decrease in receivables, net of allowances	(16)	40	-
Decrease in due from U.S. Government	-	-	-
Decrease in due from local governments	-	94	-
(Increase) decrease in due from other Funds	(1)	188	(1)
(Increase) decrease in inventories, at cost	-	(190)	-
(Increase) decrease in other current assets	(343)	-	(133)
Increase (decrease) in accounts payable	1,636	(239)	631
Increase (decrease) in accrued liabilities	1	81	4
(Decrease) in due to U.S. Government	-	-	-
(Decrease) in due to others	-	-	-
Increase in due to other Funds	23	-	11
(Decrease) in deferred revenue	-	-	-
(Decrease) in other current liabilities	-	-	-
Increase (decrease) in accrued compensated absences	(3)	-	15
Increase in accrued insurance losses	16,428	-	7,272
(Decrease) in other long-term liabilities	-	-	-
Net Changes in Assets and Liabilities	17,725	(26)	7,799
Net Cash Provided by Operating Activities	5,350	8,145	5,055
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Other non-operating revenues	128	-	-
Operating transfers in	56	-	41
Operating transfers out	(9,980)	(1,289)	(203)
Residual equity transfers	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	(9,796)	(1,289)	(162)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of fixed assets	(64)	(5,526)	16
Proceeds from sale of fixed assets	-	448	-
Contributions from other Funds	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(64)	(5,078)	16
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	-	185	-
Net Cash Provided by Investing Activities	-	185	-
Net Increase (Decrease) in Cash and Cash Equivalents	(4,510)	1,963	4,909
Cash and Cash Equivalents - Beginning, as restated	38,037	3,367	15,296
Cash and Cash Equivalents - Ending	$ 33,527	$ 5,330	$ 20,205

TECHNOLOGIES & TELE-COMMUNICATIONS	MOTOR POOL	OTHER	TOTAL
$ 1,428	$ (276)	$ 1,284	$ (11,217)
2,562	4,297	474	14,038
1,332	752	161	2,269
-	-	4	4
-	-	-	94
(1,548)	(957)	(695)	(3,014)
-	(3)	381	188
13	-	4	(459)
506	(1,028)	715	2,221
(364)	(14)	110	(182)
(1,624)	-	(287)	(1,911)
-	-	(105)	(105)
5	1	1,062	1,102
(2)	-	-	(2)
-	-	(5)	(5)
83	8	(28)	75
-	-	-	23,700
-	-	(11)	(11)
(1,599)	(1,241)	1,306	23,964
2,391	2,780	3,064	26,785
2	673	5	808
11	-	1,947	2,055
(712)	(43)	(2,000)	(14,227)
(500)	-	-	(500)
(1,199)	630	(48)	(11,864)
(5,205)	(6,742)	(341)	(17,862)
-	-	-	448
-	1,998	-	1,998
(5,205)	(4,744)	(341)	(15,416)
-	-	-	185
-	-	-	185
(4,013)	(1,334)	2,675	(310)
10,559	6,815	4,836	78,910
$ 6,546	$ 5,481	$ 7,511	$ 78,600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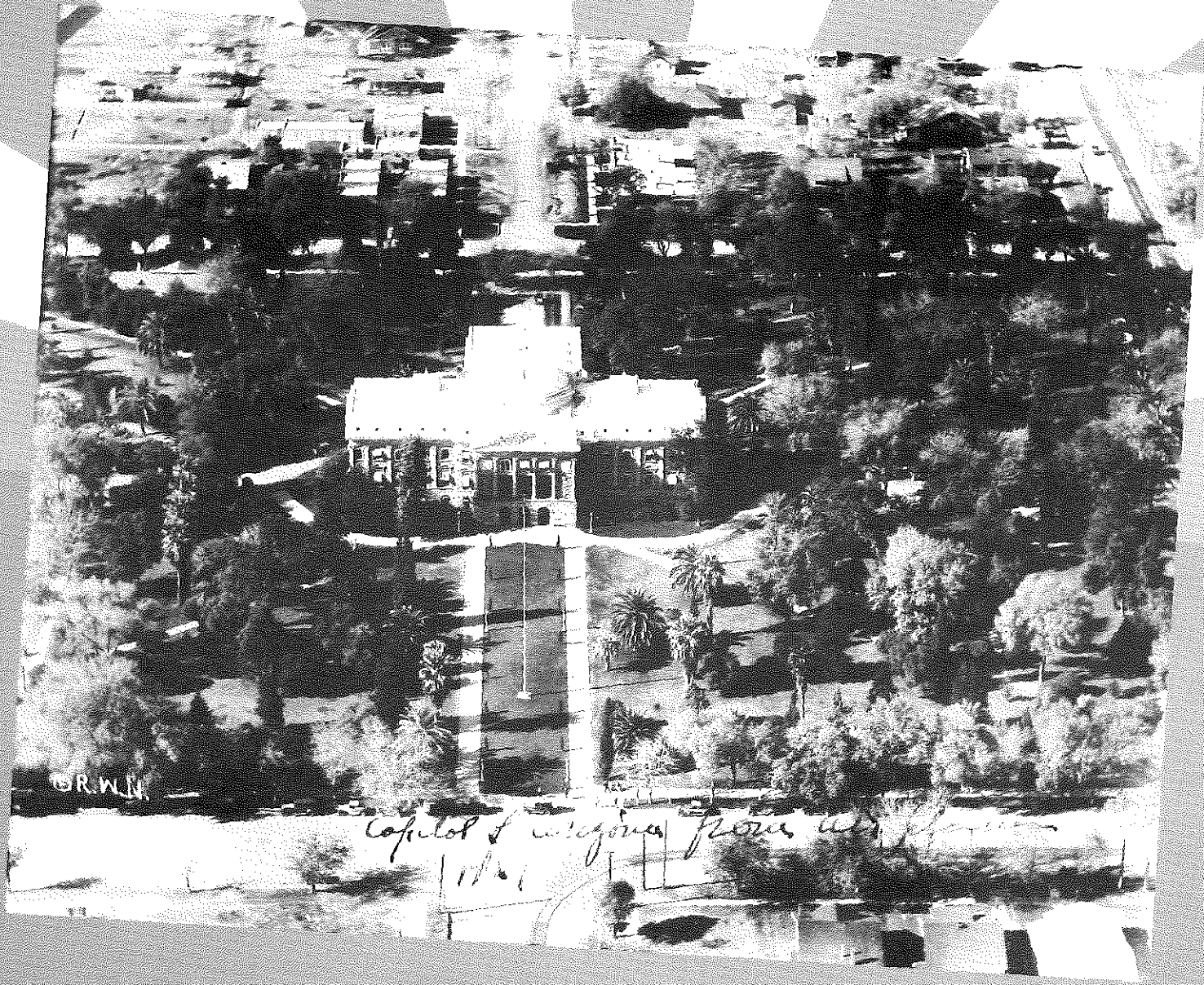
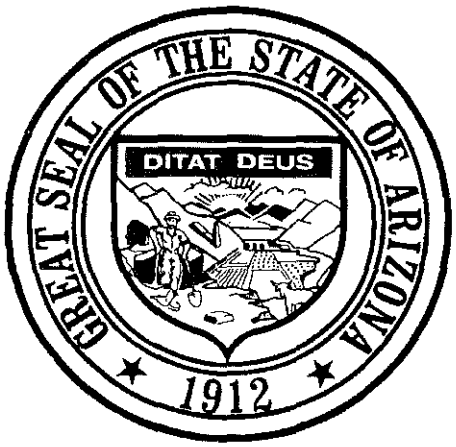


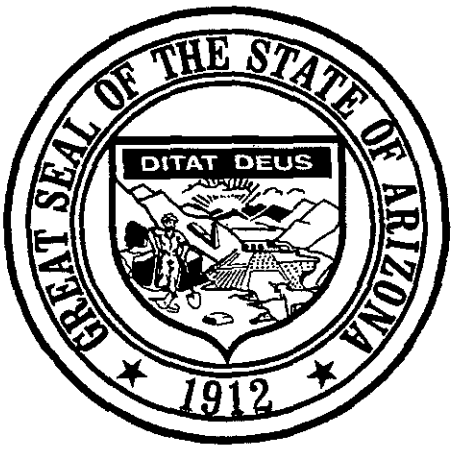
Trust and Agency Funds



1927 overhead view showing entry landscape and lighting, diagonal walkways and the first of the additions to the original on the west side of the building constructed in 1918 – 1919. The street trolley tracks had been routed through the property before construction began on the building in 1899 and were moved to a side street.

STATE OF ARIZONA
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	EXPENDABLE TRUSTS	NON-EXPENDABLE TRUSTS	PENSION TRUSTS	INVESTMENT TRUSTS	AGENCY	TOTAL
ASSETS						
Cash and investments	$ 1,019,806	$ 972,202	$ 30,673,983	$ 2,757,008	$ 3,146,493	$ 38,569,492
Receivables, net of allowances:						
Taxes	46,409	-	-	-	-	46,409
Interest	293	14,156	99,311	13,498	185	127,443
Other	6,732	27,472	219,905	-	25	254,134
Due from others	1	-	-	-	-	1
Due from other Funds	929	2,523	-	11,448	-	14,900
Inventories, at cost	84	-	-	-	-	84
Other	1,808	-	-	-	-	1,808
Fixed assets:						
Property and equipment	-	11,966	693	-	-	12,659
Less: accumulated depreciation	-	(988)	(201)	-	-	(1,189)
Total Assets	$ 1,076,062	$ 1,027,331	$ 30,993,691	$ 2,781,954	$ 3,146,703	$ 39,025,741
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 19,774	$ 2,158	$ 106,854	$ -	$ 4,237	$ 133,023
Accrued liabilities	9,571	3	-	-	6,682	16,256
Obligations under securities loan agreements	-	-	2,185,841	-	-	2,185,841
Due to local governments	-	-	-	8,081	23,360	31,441
Due to others	44	-	-	-	61,534	61,578
Due to other Funds	1,366	202	-	-	23,675	25,243
Deferred revenue	12,733	16,934	-	-	-	29,667
Other	4,167	1,350	376,542	-	3,027,215	3,409,274
Total Liabilities	47,655	20,647	2,669,237	8,081	3,146,703	5,892,323
Reserved Fund Balances	1,028,407	1,006,684	28,324,454	2,773,873	-	33,133,418
Total Liabilities and Fund Balances	$ 1,076,062	$ 1,027,331	$ 30,993,691	$ 2,781,954	$ 3,146,703	$ 39,025,741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EXPENDABLE TRUST FUNDS

Expendable Trust Funds account for assets held by the State in a trustee capacity, where the principal may be expended in the course of the funds' designated operations.

The Unemployment Compensation Fund pays claims for unemployment to eligible recipients through employer contributions and reimbursements.

The Employee Benefits Fund accounts for resources and transactions pertaining to the State's medical plan and life insurance program.

The Energy Conservation Fund accounts for monies received from the Federal Government according to a United States District Court order requiring oil companies to pay restitution to states for oil overcharges. Expenditures for energy projects are made in accordance with guidelines established by the United States Department of Energy.

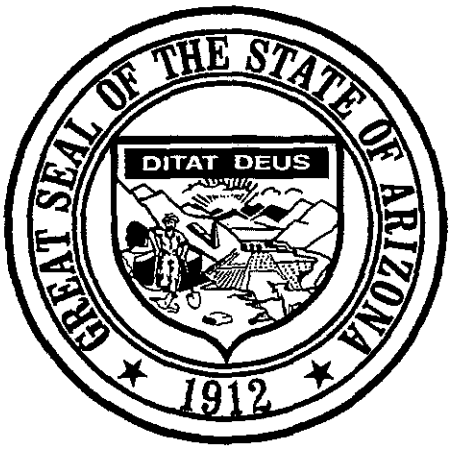
The Other Expendable Trust Fund consists of various funds where the State holds assets in a trustee capacity and the principal may be expended in the course of the funds' designated operations.

STATE OF ARIZONA
COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	UNEMPLOYMENT COMPENSATION	EMPLOYEE BENEFITS	ENERGY CONSERVATION	OTHER	TOTAL
ASSETS					
Cash and investments	$ 919,825	$ 30,850	$ 13,614	$ 55,517	$ 1,019,806
Receivables, net of allowances:					
Taxes	46,409	-	-	-	46,409
Interest	-	-	56	237	293
Other	3,685	2,305	387	355	6,732
Due from others	-	-	1	-	1
Due from other Funds	-	643	-	286	929
Inventories, at cost	-	-	-	84	84
Other	-	-	-	1,808	1,808
Total Assets	$ 969,919	$ 33,798	$ 14,058	$ 58,287	$ 1,076,062
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ -	$ 18,950	$ 60	$ 764	$ 19,774
Accrued liabilities	9,258	39	18	256	9,571
Due to others	-	-	-	44	44
Due to other Funds	185	561	1	619	1,366
Deferred revenue	12,413	-	4	316	12,733
Other	3,676	-	-	491	4,167
Total Liabilities	25,532	19,550	83	2,490	47,655
Fund Balances, all reserved	944,387	14,248	13,975	55,797	1,028,407
Total Liabilities and Fund Balances	$ 969,919	$ 33,798	$ 14,058	$ 58,287	$ 1,076,062

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	UNEMPLOYMENT COMPENSATION	EMPLOYEE BENEFITS	ENERGY CONSERVATION	OTHER	TOTAL
REVENUES					
Taxes:					
Sales	$ -	$ -	$ -	$ 1	$ 1
Income	-	-	-	30	30
Unemployment	191,327	-	-	-	191,327
Intergovernmental	572	-	265	560	1,397
Licenses, fees and permits	-	-	-	5,840	5,840
Earnings on investments	57,319	-	750	2,409	60,478
Sales and charges for services	-	-	-	327	327
Fines, forfeitures and penalties	1,622	-	-	4,318	5,940
Other	316	48,791	38	7,935	57,080
Total Revenues	251,156	48,791	1,053	21,420	322,420
EXPENDITURES					
Current:					
General government	-	221,860	2,245	5,979	230,084
Health and welfare	171,292	-	-	7,666	178,958
Inspection and regulation	-	-	-	4,329	4,329
Education	-	-	-	1,957	1,957
Protection and safety	-	-	-	2,156	2,156
Natural resources	-	-	-	1,300	1,300
Capital outlay	-	-	-	1,487	1,487
Debt service:					
Principal	-	-	2	21	23
Total Expenditures	171,292	221,860	2,247	24,895	420,294
Revenues Over (Under) Expenditures	79,864	(173,069)	(1,194)	(3,475)	(97,874)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	176,954	-	7,051	184,005
Operating transfers in from component units	-	21	-	-	21
Operating transfers out	(1,658)	-	(436)	(1,189)	(3,283)
Total Other Financing Sources (Uses)	(1,658)	176,975	(436)	5,862	180,743
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	78,206	3,906	(1,630)	2,387	82,869
Beginning Fund Balances, as restated	866,181	10,342	15,605	54,230	946,358
Residual Equity Transfers	-	-	-	(820)	(820)
Ending Fund Balances	$ 944,387	$ 14,248	$ 13,975	$ 55,797	$ 1,028,407


GREAT SEAL OF THE STATE OF ARIZONA
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NON-EXPENDABLE TRUST FUNDS

Non-Expendable Trust Funds account for assets held by the State in a trustee capacity, where the State must preserve the principal intact, and may expend only income derived from the principal for the funds' designated operations.

The Land Endowments Fund receives monies from land and property rentals and interest on land grants and investments.

The Other Non-Expendable Trust Fund consists of the Les Arie Memorial Fund, Arizona Arts Endowment Trust Fund, Riparian Acquisition Trust Fund, Water Resources Flood Control Loan Fund, and Water Resources Alternative Flood Control Fund.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-EXPENDABLE TRUST FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	LAND ENDOWMENTS	OTHER	TOTAL
ASSETS			
Current Assets:			
Cash and investments	$ 83,640	$ 2,375	$ 86,015
Receivables, net of allowances:			
Interest	14,147	9	14,156
Other	9,615	-	9,615
Due from other Funds	523	2,000	2,523
Total Current Assets	107,925	4,384	112,309
Long-term Assets:			
Investments	886,187	-	886,187
Receivables, net of allowances	17,857	-	17,857
Fixed assets:			
Property and equipment	11,966	-	11,966
Less: accumulated depreciation	(988)	-	(988)
Total Long-term Assets	915,022	-	915,022
Total Assets	$ 1,022,947	$ 4,384	$ 1,027,331
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	$ 2,158	$ -	$ 2,158
Accrued liabilities	3	-	3
Due to other Funds	202	-	202
Deferred revenue	16,934	-	16,934
Other	1,350	-	1,350
Total Liabilities	20,647	-	20,647
Reserved Fund Balances	1,002,300	4,384	1,006,684
Total Liabilities and Fund Equity	$ 1,022,947	$ 4,384	$ 1,027,331

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND BALANCES
NON-EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	LAND ENDOWMENTS	OTHER	TOTAL
OPERATING REVENUES			
Sales and charges for services	$ 17,576	$ 1	$ 17,577
Intergovernmental	46	-	46
Earnings on investments	29,105	99	29,204
Gain on sale of land	22,294	-	22,294
Other	2,521	126	2,647
Total Operating Revenues	71,542	226	71,768
OPERATING EXPENSES			
Personal services	73	-	73
Contractual services	1,115	-	1,115
Aid to local governments	108,856	-	108,856
Depreciation and amortization	281	-	281
Insurance	4	-	4
Other	9,361	2	9,363
Total Operating Expenses	119,690	2	119,692
Operating Income (Loss)	(48,148)	224	(47,924)
NON-OPERATING REVENUES			
Interest income	-	10	10
Other	42	-	42
Net Non-Operating Income	42	10	52
Income (Loss) Before Operating Transfers	(48,106)	234	(47,872)
OPERATING TRANSFERS			
Operating transfers in	-	4,010	4,010
Operating transfers out	(864)	(26)	(890)
Net Operating Transfers	(864)	3,984	3,120
Net Income (Loss)	(48,970)	4,218	(44,752)
Beginning Fund Balances	1,050,758	166	1,050,924
Residual Equity Transfers	512	-	512
Ending Fund Balances	$ 1,002,300	$ 4,384	$ 1,006,684

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	LAND ENDOWMENTS	OTHER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ (48,148)	$ 224	$ (47,924)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	281	-	281
Net decrease in fair value of investments	39,515	-	39,515
Total Adjustments	39,796	-	39,796
Changes in assets and liabilities:			
(Increase) decrease in receivables, net of allowances	9,724	(9)	9,715
(Increase) in due from other Funds	(523)	(2,000)	(2,523)
(Decrease) in accounts payable	(16,097)	-	(16,097)
(Decrease) in accrued liabilities	(4)	-	(4)
(Decrease) in due to other Funds	(7,414)	-	(7,414)
Increase in deferred revenue	1,477	-	1,477
Increase in other current liabilities	1,250	-	1,250
Net Changes in Assets and Liabilities	(11,587)	(2,009)	(13,596)
Net Cash (Used) by Operating Activities	(19,939)	(1,785)	(21,724)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Other non-operating revenue	42	10	52
Operating transfers in	-	4,010	4,010
Operating transfers out	(864)	(26)	(890)
Residual equity transfers	512	-	512
Net Cash Provided (Used) by Non-capital Financing Activities	(310)	3,994	3,684
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of fixed assets	(155)	-	(155)
Proceeds from sales of fixed assets	6,214	-	6,214
Net Cash Provided by Capital and Related Financing Activities	6,059	-	6,059
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	115,378	-	115,378
Purchase of investments	(168,558)	-	(168,558)
Net Cash (Used) by Investing Activities	(53,180)	-	(53,180)
Net Increase (Decrease) in Cash and Cash Equivalents	(67,370)	2,209	(65,161)
Cash and Cash Equivalents - Beginning	151,010	166	151,176
Cash and Cash Equivalents - Ending	$ 83,640	$ 2,375	$ 86,015

PENSION TRUST FUNDS

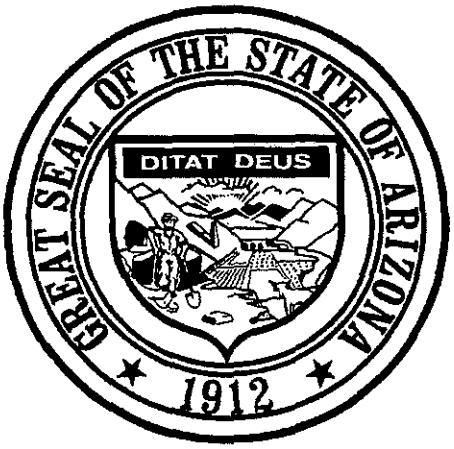
Pension Trust Funds account for transactions of the four public employee retirement systems for which the State acts as trustee.

The Arizona State Retirement System is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions.

The Public Safety Personnel Retirement System is an agent multiple-employer pension system that benefits fire fighters and police officers employed by the State and its political subdivisions.

The Elected Officials' Retirement Plan is a cost-sharing, multiple-employer pension plan that benefits all elected State and county officials and judges (except La Paz County elected officials), and certain elected city officials.

The Corrections Officer Retirement Plan is an agent multiple-employer pension plan that benefits town, city and county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections.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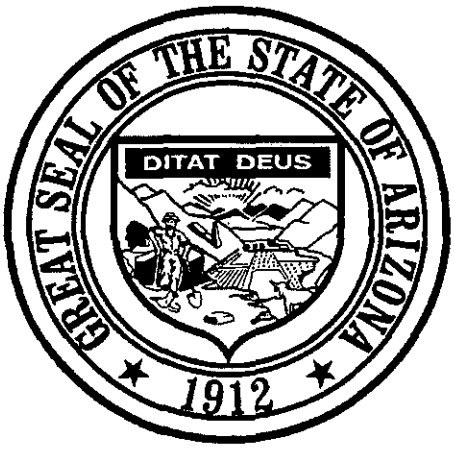
STATE OF ARIZONA
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS'	CORRECTIONS OFFICER	TOTAL
ASSETS					
Cash and cash equivalents	$ 3,338	$ -	$ -	$ -	$ 3,338
Receivables:					
Accrued interest and dividends	54,931	36,409	2,931	5,040	99,311
Securities sold	100,375	-	-	-	100,375
Forward contract receivable	102,995	-	-	-	102,995
Contributions	7,978	5,716	399	1,683	15,776
Miscellaneous receivables	759	-	-	-	759
Total receivables	267,038	42,125	3,330	6,723	319,216
Investments, at fair value:					
Temporary investments	1,703,473	-	-	-	1,703,473
United States Government securities	3,485,836	512,175	39,201	72,587	4,109,799
Corporate bonds	2,542,859	624,438	40,856	85,887	3,294,040
Corporate notes	-	43,953	1,998	6,993	52,944
Corporate stocks	15,741,071	3,510,963	268,365	509,409	20,029,808
Valley Ventures	76	-	-	-	76
Real estate mortgages and contracts	257,275	-	-	-	257,275
Collateral investment pool	-	904,878	76,868	113,607	1,095,353
Other investments	-	106,567	5,164	14,166	125,897
Money market fund	-	936	578	466	1,980
Total investments	23,730,590	5,703,910	433,030	803,115	30,670,645
Property and equipment, net of accumulated depreciation	-	492	-	-	492
Total Assets	24,000,966	5,746,527	436,360	809,838	30,993,691
LIABILITIES					
Accounts payable	106,854	-	-	-	106,854
Obligation under securities loan agreements	1,090,488	904,878	76,868	113,607	2,185,841
Other	376,542	-	-	-	376,542
Total Liabilities	1,573,884	904,878	76,868	113,607	2,669,237
Net Assets Held in Trust for Pension Benefits	$ 22,427,082	$ 4,841,649	$ 359,492	$ 696,231	$ 28,324,454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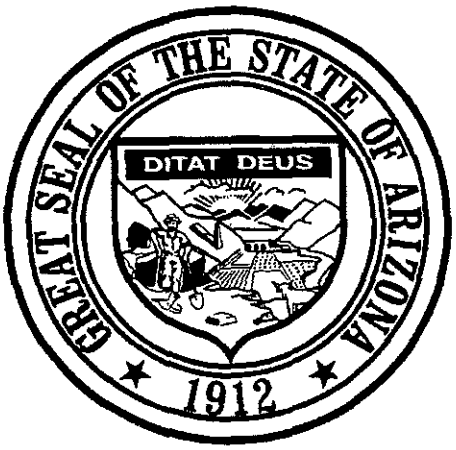
INVESTMENT TRUST FUNDS

Investment Trust Funds account for assets held by the State in a trustee capacity for local governments and political subdivisions, of the State of Arizona, which have elected to invest idle cash with the State Treasurer's Office. The Treasurer acts as trustee for the deposits made by participants.

Central Arizona Water Conservation District is an Investment Trust Account composed of corporate stock, corporate debt and United States Government securities. The Central Arizona Water Conservation District is the only participant in the account.

Local Government Investment Pool is an Investment Trust Account composed of corporate stock, corporate debt, negotiable certificates of deposit and United States Government securities.

Local Government Investment Pool-Government is an Investment Trust Account composed of repurchase agreements and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.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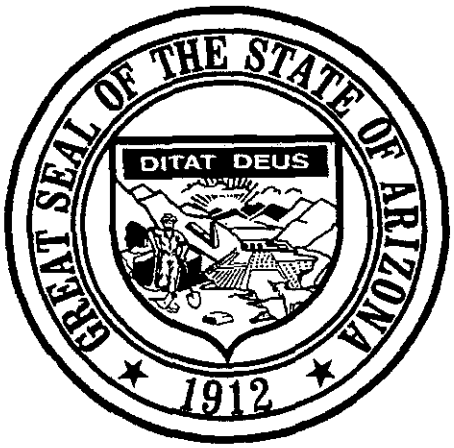
STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
INVESTMENT TRUST FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL-GOVERNMENT	TOTAL
ASSETS				
Investments in securities	$ 186,318	$ 2,363,419	$ 207,271	$ 2,757,008
Accrued interest and other receivables	959	11,645	894	13,498
Due from other Funds	1,029	9,684	735	11,448
Total Assets	188,306	2,384,748	208,900	2,781,954
LIABILITIES				
Distributions payable	1,015	6,102	964	8,081
Total Liabilities	1,015	6,102	964	8,081
Net assets held in trust	$ 187,291	$ 2,378,646	$ 207,936	$ 2,773,873
Net assets consist of:				
Participant shares outstanding	187,291	2,378,646	207,936	2,773,873
Participants' net asset value (net assets/shares outstanding)	$ 1.00	$ 1.00	$ 1.00	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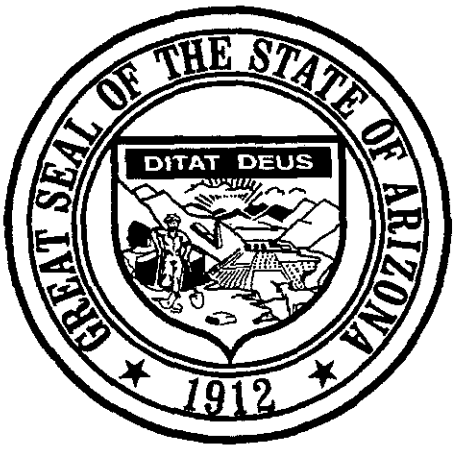
AGENCY FUNDS

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, where the State acts as an agent for distribution to other governmental units or organizations.

The Treasurer Custodial Securities Fund consists of securities held by the State Treasurer for various State agencies as required by statute.

The Other Treasurer Funds account for other various deposits made with the State Treasurer for investment purposes.

The Other Agency Fund consists of various funds where the State acts as an agent for distribution to other governmental units or organizations.


GREAT SEAL OF THE STATE OF ARIZONA
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STATE OF ARIZONA
COMBINING BALANCE SHEET
AGENCY FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES	OTHER TREASURER FUNDS	OTHER	TOTAL
ASSETS				
Cash and investments	$ 3,007,396	$ 44,331	$ 94,766	$ 3,146,493
Receivables, net of allowances:				
Interest	-	76	109	185
Other	-	-	25	25
Total Assets	$ 3,007,396	$ 44,407	$ 94,900	$ 3,146,703
LIABILITIES				
Accounts payable	$ -	$ 553	$ 3,684	$ 4,237
Accrued liabilities	-	-	6,682	6,682
Due to local governments	-	20,572	2,788	23,360
Due to others	-	3,624	57,910	61,534
Due to other Funds	-	19,528	4,147	23,675
Other	3,007,396	130	19,689	3,027,215
Total Liabilities	$ 3,007,396	$ 44,407	$ 94,900	$ 3,146,703

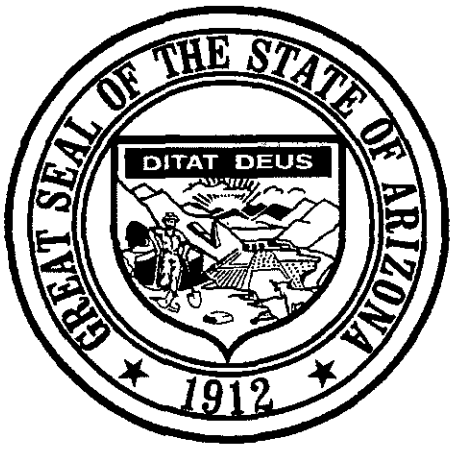
STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	BALANCE JULY 1, 1998	ADDITIONS	DELETIONS	BALANCE JUNE 30, 1999
TREASURER CUSTODIAL SECURITIES				
Assets:				
Cash and investments	$ 2,944,866	$ 347,322	$ 284,792	$ 3,007,396
Total Assets	$ 2,944,866	$ 347,322	$ 284,792	$ 3,007,396
Liabilities:				
Other liabilities	$ 2,944,866	$ 347,322	$ 284,792	$ 3,007,396
Total Liabilities	$ 2,944,866	$ 347,322	$ 284,792	$ 3,007,396
OTHER TREASURER FUNDS				
Assets:				
Cash and investments	$ 38,812	$ 532,288	$ 526,769	$ 44,331
Interest receivable	132	76	132	76
Total Assets	$ 38,944	$ 532,364	$ 526,901	$ 44,407
Liabilities:				
Accounts payable	$ -	$ 44,659	$ 44,106	$ 553
Due to local governments	15,463	476,450	471,341	20,572
Due to others	4,995	9,685	11,056	3,624
Due to other Funds	18,301	19,528	18,301	19,528
Other liabilities	185	111	166	130
Total Liabilities	$ 38,944	$ 550,433	$ 544,970	$ 44,407

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	BALANCE JULY 1, 1998	ADDITIONS	DELETIONS	BALANCE JUNE 30, 1999
OTHER AGENCY FUNDS				
Assets:				
Cash and investments	$ 62,857	$ 173,794	$ 141,885	$ 94,766
Interest receivable	140	109	140	109
Other receivables	25	454	454	25
Due from other Funds	-	-	-	-
Total Assets	$ 63,022	$ 174,357	$ 142,479	$ 94,900
Liabilities:				
Accounts payable	$ 1,469	$ 30,798	$ 28,583	$ 3,684
Accrued liabilities	3,643	6,682	3,643	6,682
Due to local governments	2,744	839	795	2,788
Due to others	34,780	58,312	35,182	57,910
Due to other Funds	1,689	4,147	1,689	4,147
Other liabilities	18,697	38,466	37,474	19,689
Total Liabilities	$ 63,022	$ 139,244	$ 107,366	$ 94,900
COMBINED TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and investments	$ 3,046,535	$ 1,053,404	$ 953,446	$ 3,146,493
Interest receivable	272	185	272	185
Other receivables	25	454	454	25
Due from other Funds	-	-	-	-
Total Assets	$ 3,046,832	$ 1,054,043	$ 954,172	$ 3,146,703
Liabilities:				
Accounts payable	$ 1,469	$ 75,457	$ 72,689	$ 4,237
Accrued liabilities	3,643	6,682	3,643	6,682
Due to local governments	18,207	477,289	472,136	23,360
Due to others	39,775	67,997	46,238	61,534
Due to other Funds	19,990	23,675	19,990	23,675
Other liabilities	2,963,748	385,899	322,432	3,027,215
Total Liabilities	$ 3,046,832	$ 1,036,999	$ 937,128	$ 3,146,703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GENERAL FIXED ASSETS ACCOUNT GROUP

Fixed assets used in Governmental and Expendable Trust Fund operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in the individual funds. Fixed assets related to Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds and the Component Units are accounted for in those funds.

STATE OF ARIZONA
SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION
JUNE 30, 1999
(Expressed in Thousands)

FUNCTION	LAND	BUILDINGS AND IMPROVEMENTS	OTHER IMPROVEMENTS	FURNITURE, VEHICLES, AND EQUIPMENT	TOTAL
General government	$ 16,883	$ 374,051	$ 1,233	$ 29,706	$ 421,873
Health and welfare	6,413	59,569	4,199	89,414	159,595
Inspection and regulation	-	28	-	15,973	16,001
Education	3,244	8,702	-	5,222	17,168
Protection and safety	6,414	369,511	33,882	125,491	535,298
Transportation	10,863	110,108	31,086	39,454	191,511
Natural resources	43,081	36,683	27,326	27,005	134,095
Total General Fixed Assets by Function	86,898	958,652	97,726	332,265	1,475,541
Construction in progress	-	273,171	-	-	273,171
Total General Fixed Assets	$ 86,898	$ 1,231,823	$ 97,726	$ 332,265	$ 1,748,712

STATE OF ARIZONA
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

FUNCTION	BALANCE JULY 1, 1998	ADJUSTMENTS	ADDITIONS	DELETIONS	BALANCE JUNE 30, 1999
General government	$ 380,958	$ 279	$ 45,311	$ 4,675	$ 421,873
Health and welfare	178,050	(19,639)	10,487	9,303	159,595
Inspection and regulation	13,483	441	2,297	220	16,001
Education	16,807	66	343	48	17,168
Protection and safety	515,337	1,832	20,471	2,342	535,298
Transportation	182,505	-	15,741	6,735	191,511
Natural resources	100,250	18,685	16,140	980	134,095
Total General Fixed Assets by Function	1,387,390	1,664	110,790	24,303	1,475,541
Construction in progress	227,422	24,826	61,820	40,897	273,171
Total General Fixed Assets	$ 1,614,812	$ 26,490	$ 172,610	$ 65,200	$ 1,748,712

The July 1, 1998 balances were adjusted as a result of previously unreported and misclassified fixed assets.

STATE OF ARIZONA

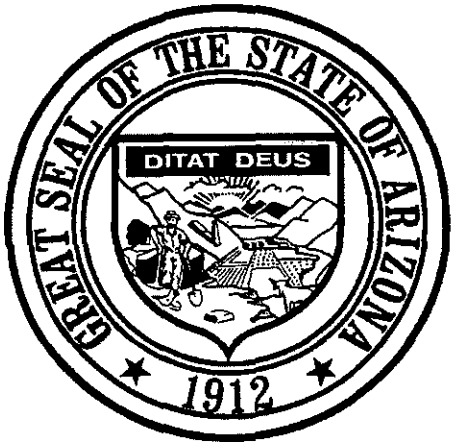
SCHEDULE OF GENERAL FIXED ASSETS BY SOURCE

JUNE 30, 1999

(Expressed in Thousands)

GENERAL FIXED ASSETS		
Land	$	86,898
Buildings and improvements		958,652
Other improvements		97,726
Furniture, vehicles, and equipment		332,265
Construction in progress		273,171
Total General Fixed Assets	$	1,748,712
INVESTMENT IN GENERAL FIXED ASSETS FROM:		
General Fund	$	589,779
Construction in progress		48,489
Special Revenue Funds:		
General Government		4,968
Health and Welfare		5,003
Inspection and Regulation		9,205
Education		119
Protection and Safety		11,068
Construction in progress		271
Transportation		191,511
Natural Resources		92,053
Construction in progress		6,436
Capital Projects Funds:		
Certificates of Participation Financed		279,023
General Fund Financed		2,584
Construction in progress		14,687
Special Revenue Funds Financed		283,287
Construction in progress		203,289
Expendable Trust Funds:		
Employee Benefits Fund		25
Energy Conservation Fund		25
Donations		6,012
Other Funds		878
Total Investment in General Fixed Assets	$	1,748,712

Approximately $264 million of prison buildings were reclassified from the General Fund into the Capital Projects Funds' Special Revenue Funds Financed to correct a misclassification from prior years.


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

UNIVERSITY FUNDS

The University Funds account for the transactions of the State's three universities.

Current Operating Funds account for unrestricted resources over which the governing board retains full control in achieving the institutions' purposes and restricted resources which may be utilized only in accordance with externally restricted purposes.

Loan Funds account for loans made to assist students in financing their education.

Endowment and Similar Funds account for private gifts which specify income purpose and principal protection.

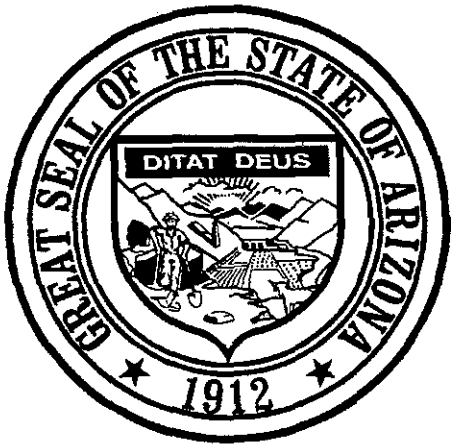
Agency Funds account for assets for which the university acts in a custodial manner.

Plant Funds account for institutional property investment, acquisition, renewal, replacement and debt service.

STATE OF ARIZONA
COMBINING BALANCE SHEET
UNIVERSITY FUNDS
JUNE 30, 1999
(Expressed in Thousands)

	CURRENT OPERATING FUNDS				
	UNRESTRICTED				
	GENERAL OPERATING FUNDS	DESIGNATED FUNDS	AUXILIARY ENTERPRISES FUNDS	RESTRICTED FUNDS	TOTAL CURRENT OPERATING FUNDS
ASSETS					
Cash and investments	$ 51,684	$ 143,022	$ 49,530	$ 24,286	$ 268,522
Cash held by trustee	-	-	-	385	385
Receivables, net of allowances	449	7,457	10,490	52,927	71,323
Due from other Funds	-	2,744	-	-	2,744
Inventories, at cost	26	427	13,762	-	14,215
Other	-	4,400	385	42	4,827
Fixed assets:					
Property and equipment	-	-	-	209	209
Total Assets	$ 52,159	$ 158,050	$ 74,167	$ 77,849	$ 362,225
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 5,414	$ 4,293	$ 5,993	$ 6,315	$ 22,015
Accrued liabilities	17,047	4,246	2,832	9,486	33,611
Due to other Funds	-	-	110	2,744	2,854
Deferred revenue	6,275	21,095	13,688	6,176	47,234
Revenue bonds	-	-	-	-	-
Certificates of participation	-	-	-	-	-
Leases and installment purchases	-	-	-	-	-
Other	-	124	961	-	1,085
Total Liabilities	28,736	29,758	23,584	24,721	106,799
Fund Balances:					
Restricted	-	14,000	-	53,128	67,128
Designated	23,423	114,292	50,583	-	188,298
Net investment in fixed assets	-	-	-	-	-
Total Fund Balances	23,423	128,292	50,583	53,128	255,426
Total Liabilities and Fund Balances	$ 52,159	$ 158,050	$ 74,167	$ 77,849	$ 362,225

	NON-OPERATING FUNDS				
	LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	AGENCY FUNDS	PLANT FUNDS	TOTAL ALL FUNDS
$	3,407	$ 198,629	$ 51,367	$ 110,567	$ 632,492
	-	15,980	-	39,720	56,085
	32,419	1,312	2,521	5,225	112,800
	-	-	-	110	2,854
	-	-	77	-	14,292
	-	-	615	-	5,442
	-	4,056	-	3,027,636	3,031,901
$	35,826	$ 219,977	$ 54,580	$ 3,183,258	$ 3,855,866
$	27	$ 58	$ 2,466	$ 18,888	$ 43,454
	6	-	253	-	33,870
	-	-	-	-	2,854
	6	4	-	74,617	121,861
	-	-	-	559,109	559,109
	-	-	-	100,084	100,084
	-	-	-	7,087	7,087
	-	-	51,861	1,208	54,154
	39	62	54,580	760,993	922,473
	35,526	144,530	-	35,367	282,551
	261	75,385	-	61,278	325,222
	-	-	-	2,325,620	2,325,620
	35,787	219,915	-	2,422,265	2,933,393
$	35,826	$ 219,977	$ 54,580	$ 3,183,258	$ 3,855,866


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

COMPONENT UNITS

The Component Units include proprietary and fiduciary type organizations which are legally separate from the State but are considered part of the reporting entity because they are financially accountable to the State, and/or the State is able to impose its will on the organization.

The University Medical Center is a 365-bed, general acute-care teaching facility in Tucson, Arizona. It is the primary teaching hospital for the College of Medicine of the University of Arizona.

The Arizona Power Authority purchases the State's allocation of Hoover power and resells it to Arizona entities that are eligible purchasers under federal and state law. Hoover power is produced by the Bureau of Reclamation at the federally-owned Boulder Canyon Project hydropower plant, located near Las Vegas, Nevada.

Wastewater Infrastructure Finance Authority is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act) which required the State to establish the Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. WIFA has entered into an agreement this year with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act.

STATE OF ARIZONA
COMBINING BALANCE SHEET
PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
JUNE 30, 1999
(Expressed in Thousands)

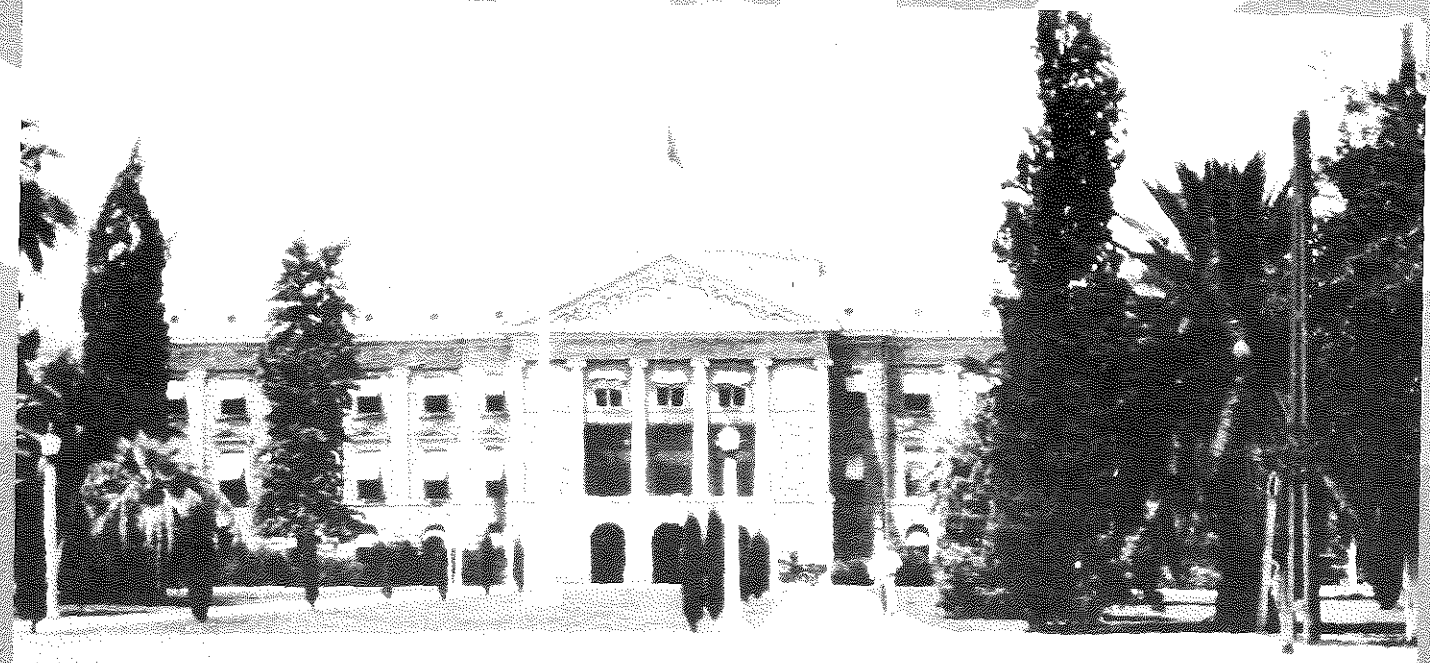
	PROPRIETARY FUND TYPE		FIDUCIARY FUND TYPE	
	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	WATER INFRASTRUCTURE FINANCE AUTHORITY	TOTAL
ASSETS				
Current Assets:				
Cash and investments	$ 44,371	$ 11,443	$ 30,565	$ 86,379
Receivables, net of allowances:				
Interest	-	236	2,931	3,167
Other	39,266	2,327	85	41,678
Inventories, at cost	7,551	-	-	7,551
Other	3,824	1,987	-	5,811
Total Current Assets	95,012	15,993	33,581	144,586
Long-term Assets:				
Investments	-	-	89,211	89,211
Investments held by trustee	15,781	8,135	7,417	31,333
Receivables, net of allowances	-	-	146,881	146,881
Other	5,504	52,544	285	58,333
Fixed assets:				
Property and equipment	251,737	1,178	-	252,915
Less: accumulated depreciation	(132,619)	(935)	-	(133,554)
Total Long-term Assets	140,403	60,922	243,794	445,119
Total Assets	$ 235,415	$ 76,915	$ 277,375	$ 589,705
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Accounts payable	$ 12,122	$ 518	$ -	$ 12,640
Accrued liabilities	9,487	912	3,853	14,252
Deferred revenue	-	-	1,921	1,921
Current portion of long-term debt	2,280	-	-	2,280
Other	17,749	3,882	-	21,631
Total Current Liabilities	41,638	5,312	5,774	52,724
Long-term Liabilities:				
Accrued compensated absences	3,420	-	-	3,420
Accrued insurance losses	6,713	-	-	6,713
Long-term debt:				
Revenue bonds	74,798	67,433	144,656	286,887
Other	12,017	-	44	12,061
Total Long-term Liabilities	96,948	67,433	144,700	309,081
Total Liabilities	138,586	72,745	150,474	361,805
Fund Equity:				
Contributed capital	-	9	115,408	115,417
Retained earnings/Fund balances				
Reserved	948	5,178	-	6,126
Unreserved	95,881	(1,017)	11,493	106,357
Total Fund Equity	96,829	4,170	126,901	227,900
Total Liabilities and Fund Equity	$ 235,415	$ 76,915	$ 277,375	$ 589,705

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	PROPRIETARY FUND TYPE		FIDCUIARY FUND TYPE	
	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	WATER INFRASTRUCTURE FINANCE AUTHORITY	TOTAL
OPERATING REVENUES				
Sales and charges for services	$ 223,614	$ 21,549	$ -	$ 245,163
Intergovernmental	-	-	1,400	1,400
Earnings on investments	4,083	-	10,018	14,101
Other	17,160	-	748	17,908
Total Operating Revenues	244,857	21,549	12,166	278,572
OPERATING EXPENSES				
Cost of sales and benefits	46,286	21,206	-	67,492
Personal services	111,375	946	500	112,821
Contractual services	36,858	-	539	37,397
Depreciation and amortization	17,257	44	-	17,301
Insurance	1,781	-	-	1,781
Other	35,830	-	8,104	43,934
Total Operating Expenses	249,387	22,196	9,143	280,726
Operating Income (Loss)	(4,530)	(647)	3,023	(2,154)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	-	1,194	-	1,194
Interest expense	-	(885)	-	(885)
Other	(159)	(63)	-	(222)
Net Non-operating Income (Loss)	(159)	246	-	87
Income (Loss) Before Operating Transfers	(4,689)	(401)	3,023	(2,067)
OPERATING TRANSFERS				
Operating transfers out to primary government	-	(21)	-	(21)
Total Operating Transfers	-	(21)	-	(21)
Net Income (Loss)	(4,689)	(422)	3,023	(2,088)
Beginning Retained Earnings/Fund Balances, as restated	101,518	4,583	8,470	114,571
Ending Retained Earnings/Fund Balances	$ 96,829	$ 4,161	$ 11,493	$ 112,483

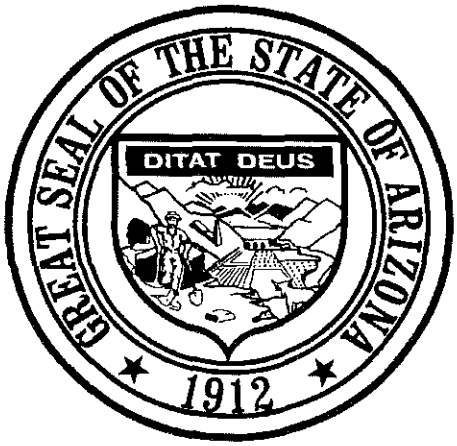
STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

	PROPRIETARY FUND TYPE		FIDUCIARY FUND TYPE	
	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	WATER INFRASTRUCTURE FINANCE AUTHORITY	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	$ (4,530)	$ (647)	$ 3,023	$ (2,154)
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization	17,257	44	-	17,301
Interest income from investing activities	-	-	(5,876)	(5,876)
Interest paid on bonds	-	-	7,688	7,688
Amortization of bond issuance costs	-	-	15	15
Total Adjustments	17,257	44	1,827	19,128
Changes in assets and liabilities:				
(Increase) in receivables, net of allowances	(3,632)	(110)	(35,711)	(39,453)
(Increase) in inventories, at cost	(1,288)	-	-	(1,288)
(Increase) in other current assets	-	(487)	-	(487)
Increase (decrease) in other long-term assets	3,172	-	(159)	3,013
Increase (decrease) in accounts payable	(2,199)	4	-	(2,195)
Increase in accrued liabilities	867	1	-	868
Increase in deferred revenue	-	-	1,921	1,921
Increase in other current liabilities	1,137	1,678	-	2,815
Increase in accrued compensated absences	194	-	-	194
(Decrease) in accrued insurance losses	(1,178)	-	-	(1,178)
Increase in other long-term liabilities	749	-	44	793
Net Changes in Assets and Liabilities	(2,178)	1,086	(33,905)	(34,997)
Net Cash Provided (Used) by Operating Activities	10,549	483	(29,055)	(18,023)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Interest expense	-	(885)	-	(885)
Other non-operating expenses	(159)	(63)	-	(222)
Operating transfers out to primary government	-	(21)	-	(21)
Retirement of revenue bonds principal	-	-	(5,280)	(5,280)
Interest payments under bonds	-	-	(7,282)	(7,282)
Draws under capital grant facility	-	-	35,649	35,649
Increase in cash advances for Hoover Uprating Project	-	(135)	-	(135)
Net Cash (Used) by Non-capital Financing Activities	(159)	(1,104)	23,087	21,824
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	(24,213)	(6)	-	(24,219)
Retirement of revenue bonds principal	(1,985)	-	-	(1,985)
Proceeds in funds received by trustee	-	88	-	88
Discount on bonds issued / defeased	-	83	-	83
Net Cash Provided (Used) by Capital and Related Financing Activities	(26,198)	165	0	(26,033)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	-	28,708	28,708
Interest and dividends on investments	-	1,194	5,934	7,128
Change in long-term funds held by trustee	11,187	-	-	11,187
Net Cash Provided by Investing Activities	11,187	1,194	34,642	47,023
Net Increase (Decrease) in Cash and Cash Equivalents	(4,621)	738	28,674	24,791
Cash and Cash Equivalents - Beginning, as restated	48,992	10,705	9,308	69,005
Cash and Cash Equivalents - Ending	$ 44,371	$ 11,443	$ 37,982	$ 93,796



Statistical Section

(Not covered by the Independent Auditors' Report)



Circa 1927 – 1929 of the Capitol entry showing Italian cypress trees and light with acorn shaped globes. The street trolley rails and the pole on the right side of the photograph are significant because power from the streetcar was used for the capitol elevator during the legislative session but removed during the summer.

STATE OF ARIZONA
REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES
AND EXPENDABLE TRUST FUNDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

SOURCE	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Taxes:										
Sales	$3,508,327	$3,210,019	$3,060,258	$2,868,455	$2,681,756	$2,497,763	$2,254,022	$2,092,390	$1,949,115	$1,924,681
Income	2,648,271	2,460,630	2,289,563	1,933,554	1,904,250	1,728,225	1,581,287	1,447,437	1,286,995	1,172,769
Motor vehicle and fuel	1,412,052	1,332,059	1,287,636	1,196,683	972,276	912,337	858,315	803,133	798,950	630,467
Property	52,785	55,354	51,185	198,035	193,625	201,011	201,758	170,773	169,356	121,024
Unemployment	191,327	223,517	225,102	239,481	235,800	200,742	124,568	128,068	119,007	120,078
Other	493,760	443,999	487,921	445,526	390,564	337,480	298,841	297,648	271,034	236,905
Intergovernmental	3,758,126	3,362,720	3,444,011	3,211,114	3,087,353	2,629,549	2,345,782	1,977,665	1,519,030	1,320,078
Licenses, fees, and permits	189,657	175,335	194,410	173,311	159,890	140,083	134,377	121,039	105,390	176,618
Earnings on investments	205,875	217,620	179,276	152,795	118,767	69,552	62,639	90,249	106,448	149,828
Sales and charges for services	47,910	56,662	28,111	24,096	13,105	15,082	11,827	20,054	11,192	24,025
Fines, forfeitures, and penalties	80,210	63,425	57,000	56,702	59,271	38,782	45,260	40,085	32,805	34,838
Other	191,446	169,685	215,337	205,691	165,231	159,500	139,508	124,020	100,522	86,483
Total Revenues	$12,779,746	$11,771,025	$11,519,810	$10,705,443	$9,981,888	$8,930,106	$8,058,184	$7,312,561	$6,469,844	$5,997,794

STATE OF ARIZONA
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
AND EXPENDABLE TRUST FUNDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

FUNCTION	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
General government	$1,605,452	$1,445,878	$1,336,854	$1,277,101	$1,189,562	$1,096,909	$954,950	$1,140,284	$778,453	$903,761
Health and welfare	4,304,739	4,005,762	4,057,734	3,790,039	3,644,541	3,208,547	3,101,338	2,762,896	2,128,204	1,720,814
Inspection and regulation	109,154	102,032	98,445	95,675	91,954	95,374	87,253	74,665	74,402	70,554
Education	2,829,105	2,591,121	2,400,212	2,220,246	2,033,675	1,841,961	1,733,768	1,647,948	1,558,634	1,438,968
Protection and safety	777,636	687,696	627,322	571,325	533,166	476,346	406,068	398,539	388,114	376,554
Transportation	1,748,482	1,499,551	1,307,624	1,287,309	1,008,472	1,011,600	908,800	857,691	963,690	506,622
Natural resources	94,399	97,377	90,417	87,252	81,629	91,227	60,480	50,389	46,489	43,866
Capital outlay	320,621	237,698	250,144	253,753	192,337	232,654	221,565	246,506	301,610	968,462
Debt service:										
Principal	180,157	167,590	168,815	151,652	118,869	100,754	81,000	77,109	69,008	65,365
Interest and other fiscal charges	89,323	89,272	99,150	103,562	107,750	111,123	112,091	110,628	104,215	89,254
Total Expenditures	$12,059,068	$10,923,977	$10,436,717	$9,837,914	$9,001,955	$8,266,495	$7,667,313	$7,366,655	$6,412,819	$6,184,220

STATE OF ARIZONA
PROPERTY TAX LEVIES, COLLECTIONS, TAXABLE PROPERTY ASSESSED AND ESTIMATED ACTUAL VALUES AND PROPERTY TAX RATES
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

Property Tax Year	Property Tax Levies	Collections Related to Property Tax Year	Taxable Property Assessed Value	Taxable Property Estimated Actual Value	Property Tax Rate
1999	$ 24,059	$ 24,059	$ 27,483,100	$ 29,098,578	0.12 %
1998	27,129	27,129	25,682,910	26,793,103	0.10
1997	28,650	28,650	24,277,784	25,377,388	0.12
1996	32,759	28,828	22,811,159	23,333,678	0.14
1995	174,706	169,992	22,109,869	23,022,331	0.79
1994	176,972	171,251	21,688,439	22,179,318	0.82
1993	177,757	169,023	21,381,932	21,748,340	0.83
1992	182,012	171,592	21,532,550	21,934,247	0.85
1991	174,155	163,735	21,616,878	22,188,831	0.81
1990	166,400	155,595	21,660,300	22,533,348	0.77

Source: Department of Revenue Annual Financial Report

STATE OF ARIZONA
HIGHWAY CONSTRUCTION REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenues	Debt Service Requirements			
		Principal	Interest	Total	Coverage
1999	$ 509,935	$ 43,805	$ 31,090	$ 74,895	6.8
1998	468,240	43,405	33,266	76,671	5.7
1997	468,542	40,970	36,148	77,118	6.1
1996	429,825	38,430	38,770	77,200	5.6
1995	399,605	36,330	40,974	77,304	5.2
1994	385,844	33,425	44,037	77,462	5.0
1993	355,304	27,865	48,289	76,154	4.7
1992	339,807	26,185	39,957	66,142	5.1
1991	346,867	24,690	36,743	61,433	5.6
1990	329,698	23,340	26,609	49,949	6.6

(1) For fiscal years 1990 through 1996, net of 7% distributed to cities with a population greater than 300,000 persons. For fiscal years 1997 and after, includes vehicle license tax revenues distributed directly to the State Highway Fund.

Source: The Arizona Department of Transportation
Annual Financial Report, Statistical Section

STATE OF ARIZONA
UNIVERSITY MEDICAL CENTER REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
1999	$ 459,866	$ 442,945	$ 16,921	$ 2,160	$ 4,535	$ 6,695	2.53
1998	410,887	385,354	25,533	2,045	4,649	6,694	3.81
1997	369,067	342,680	26,387	1,935	4,753	6,688	3.95
1996	380,743	356,271	24,472	1,485	4,836	6,321	3.87
1995	351,898	331,401	20,497	465	4,867	5,332	3.84
1994	318,181	301,139	17,042	445	4,896	5,341	3.19
1993	279,550	264,326	15,224	410	2,178	2,588	5.88
1992	253,038	239,050	13,988	395	4,109	4,504	3.11
1991	218,520	204,759	13,761	370	3,695	4,065	3.39
1990	179,401	166,669	12,732	350	2,112	2,462	5.17

Source: University Medical Center

STATE OF ARIZONA
UNIVERSITY OF ARIZONA REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

Fiscal Year	(1) Gross Revenues	(1) Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
1999	$ 650,201	$ 580,292	$ 69,909	$ 10,714	$ 14,869	$ 25,583	2.73
1998	605,197	555,733	49,464	9,830	14,463	24,293	2.04
1997	577,412	535,178	42,234	9,360	14,935	24,295	1.74
1996	563,623	513,444	50,179	9,491	15,421	24,912	2.01
1995	537,891	486,926	50,965	8,147	15,334	23,481	2.17
1994	511,315	467,291	44,024	6,450	13,813	20,263	2.17
1993	487,387	448,834	38,553	6,567	14,651	21,218	1.82
1992	477,700	446,850	30,850	5,347	14,246	19,593	1.57
1991	470,936	440,834	30,102	3,695	16,139	19,834	1.52
1990	436,310	424,284	12,026	3,514	10,315	13,829	0.87

(1) "Gross Revenues" and "Direct Operating Expenses" include Current Operating Unrestricted Funds only since these are the Funds that are pledged for debt service payments under the System Revenue Bond Indentures. Also excluded from expenses is interest, depreciation, and amortization.

Source: University of Arizona

STATE OF ARIZONA
ARIZONA STATE UNIVERSITY REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

Fiscal Year	(1) Gross Revenues	Debt Service Requirements			
		Principal	Interest	Total	Coverage
1999	$ 232,699	$ 9,640	$ 12,245	$ 21,885	10.63
1998	226,112	9,205	12,685	21,890	10.33
1997	210,519	8,780	13,113	21,893	9.62
1996	196,143	8,330	13,563	21,893	8.96
1995	183,167	7,750	14,144	21,894	8.37
1994	165,736	7,085	14,807	21,892	7.57
1993	149,895	5,865	13,815	19,680	7.62
1992	149,683	5,395	17,632	23,027	6.50
1991	148,679	4,665	16,966	21,631	6.87
1990	140,425	4,250	14,471	18,721	7.50

(1) "Gross Revenues" consist of pledged revenues for the bond issue.

Source: Arizona State University

STATE OF ARIZONA
NORTHERN ARIZONA UNIVERSITY REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Thousands)

Fiscal Year	(1) Gross Revenues	Debt Service Requirements			
		(2) Principal	Interest	Total	Coverage
1999	$ 73,467	$ 6,075	$ 5,810	$ 11,885	6.18
1998	71,743	5,743	6,145	11,888	6.03
1997	70,036	5,677	4,859	10,536	6.65
1996	68,336	5,372	5,207	10,579	6.46
1995	61,526	4,675	5,525	10,200	6.03
1994	56,313	3,905	5,802	9,707	5.80
1993	50,734	3,415	5,718	9,133	5.56
1992	47,806	2,745	6,335	9,080	5.26
1991	44,813	2,210	6,766	8,976	4.99
1990	41,139	10,175	7,017	17,192	2.39

(1) "Gross Revenues" includes only revenues that are pledged for debt service payments under the System Revenue Bond Indenture.

(2) Debt service requirement for FY 90 was increased by $9 million due to a defeasance of bonds.

Source: Northern Arizona University

STATE OF ARIZONA
ECONOMIC INDICATORS
FOR THE LAST TEN YEARS

Calendar Year Ended December 31	(1) Unemployment Rate		(1) Per Capita Personal Income	
	Arizona	U.S.	Arizona	U.S.
1998	4.20 %	4.50 %	$ N/A	$ N/A
1997	4.00	5.00	21,994	25,298
1996	5.50	5.40	21,363	24,426
1995	5.10	5.60	20,421	22,788
1994	6.30	6.10	19,153	21,699
1993	6.20	6.80	18,194	20,809
1992	7.50	7.40	17,492	20,146
1991	5.60	6.70	16,755	19,201
1990	5.30	5.50	16,265	18,666
1989	5.20	5.30	15,639	17,690

(1) Information for 1999 is not yet available.

Source: Arizona Department of Economic Security

STATE OF ARIZONA
MAJOR PRIVATE EMPLOYERS

Employer	Number of Employees
Motorola Inc.	16,000
Wal-Mart Stores Inc.	10,098
Allied-Signal Aerospace Company	9,000
American Express Co.	9,000
Bank One Arizona	8,891
Samaritan Health System	8,500
America West Holding Corp.	8,333
Intel Corp.	8,150
Raytheon Missle Systems	8,000
Wells Fargo and Co.	7,535

Source: 1999 Republic 100, as of 05/16/99, Phoenix Newspapers Inc.

STATE OF ARIZONA
POPULATION BY COUNTY
FOR THE LAST TEN YEARS

COUNTY	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Maricopa	2,101,787	2,130,400	2,179,975	2,233,700	2,291,200	2,355,900	2,528,700	2,634,625	2,720,525	2,806,100
Pima	664,200	668,500	682,890	700,265	712,600	728,425	758,575	780,750	789,650	823,900
Pinal	115,743	116,800	119,650	122,600	127,225	132,225	139,000	144,150	150,375	157,675
Yavapai	103,651	108,500	111,100	114,110	118,400	123,500	130,300	134,600	142,075	148,500
Mohave	87,040	95,400	102,375	105,725	114,000	120,325	125,150	127,700	133,550	138,625
Yuma	103,380	108,100	110,225	112,825	116,450	119,650	121,975	124,950	129,275	135,200
Cochise	97,551	98,100	99,575	101,175	103,325	108,225	112,000	114,925	119,650	123,750
Coconino	95,194	96,900	99,150	101,350	104,700	107,500	110,750	113,475	117,475	121,625
Navajo	76,579	77,700	78,705	80,480	80,675	81,750	82,875	84,300	89,225	92,500
Apache	60,827	61,600	61,900	62,950	63,050	63,275	63,750	64,475	55,500	66,350
Gila	39,592	40,300	41,050	41,700	42,400	43,350	44,525	45,300	47,450	49,175
Graham	25,213	26,700	27,500	27,700	29,400	30,625	30,050	31,150	32,575	34,700
Greenlee	7,839	8,000	8,025	8,350	8,375	8,425	8,525	8,650	8,875	9,125
La Paz	13,807	13,900	14,550	14,825	15,550	16,075	16,700	18,200	17,625	19,000
Santa Cruz	28,781	29,900	30,400	31,050	31,525	32,400	34,275	35,050	36,350	37,800
Total	3,621,184	3,680,800	3,767,070	3,858,805	3,958,875	4,071,650	4,307,150	4,462,300	4,590,175	4,764,025

Source: Arizona Department of Economic Security

STATE OF ARIZONA
SCHEDULE OF BANK AND SAVINGS AND LOAN DEPOSITS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999
(Expressed in Millions)

	Banks			Savings and Loans		
Fiscal Year	(2) State	(2) Federal	Total	State	(1) Federal	Total
1999	$14,590	$76,875	$91,465	$2,133	-	$2,133
1998	3,363	19,112	22,475	504	-	504
1997	2,757	17,404	20,161	476	-	476
1996	9,746	22,368	32,114	398	-	398
1995	9,403	21,993	31,396	86	-	86
1994	10,357	20,941	31,298	79	-	79
1993	12,656	16,673	29,329	74	-	74
1992	13,775	16,015	29,790	63	-	63
1991	13,872	15,371	29,243	62	8,612	8,674
1990	10,628	15,359	25,987	1,136	5,861	6,997

(1) Missing information not available as only State Savings and Loans are required to report to the Arizona Banking Department.

(2) Fiscal Year 1999 amounts include full year data. Fiscal Year 1998 and prior amounts include only fourth quarter totals.

Source: Arizona Banking Department

STATE OF ARIZONA
ASSESSED VALUE OF NEW COMMERCIAL AND RESIDENTIAL CONSTRUCTION
FOR THE LAST TEN YEARS

	COMMERCIAL CONSTRUCTION				RESIDENTIAL CONSTRUCTION			
Calendar Year Ended December 31	Number of Permits Issued	Percent Change	Value (Expressed in Thousands)	Percent Change	Number of Permits Issued	Percent Change	Value (Expressed in Thousands)	Percent Change
1998	43,303	9.03 %	$ 4,538,720	13.35 %	77,594	11.46 %	$ 6,674,574	22.23 %
1997	39,717	9.69	4,004,022	1.41	69,613	5.17	5,460,787	11.19
1996	36,209	10.87	3,948,490	33.15	66,194	3.93	4,911,269	22.77
1995	32,659	8.04	2,965,456	30.15	63,688	-0.59	4,000,436	-15.26
1994	30,228	6.30	2,278,460	47.15	64,065	21.08	4,720,754	30.09
1993	28,436	1.67	1,548,420	3.57	52,910	6.31	3,628,710	15.71
1992	27,969	7.61	1,495,012	17.10	49,771	17.65	3,136,169	33.41
1991	25,992	-5.79	1,276,745	-28.75	42,303	8.44	2,350,747	22.89
1990	27,590	-4.87	1,791,894	-2.00	39,011	-6.04	1,912,823	-2.92
1989	29,002	-14.50	1,828,526	-23.31	41,518	-6.91	1,970,457	-11.00

Source: College of Business, Arizona State University
Center for Business Research

STATE OF ARIZONA
PUBLIC SCHOOL ENROLLMENT - GRADES K-12
FOR THE LAST TEN ACADEMIC YEARS

			(1)	(2)	Total	High School Dropouts	
Academic Year	Grades K-3	Grades 4-6	Grades 7-9	Grades 10-12	All Grades	(3) Total	(4) Percent
1998-99	278,746	199,017	198,083	157,455	833,301	N/A	N/A
1997-98	238,769	192,714	187,959	146,710	766,152	27,999	11.50 %
1996-97	264,925	188,959	187,220	145,723	786,827	30,294	12.80
1995-96	248,295	179,154	179,021	137,975	744,445	26,401	12.20
1994-95	243,608	177,402	176,942	135,932	733,884	25,369	12.10
1993-94	236,519	172,891	167,598	129,089	706,097	25,450	13.83
1992-93	245,292	175,886	171,648	134,698	727,524	24,248	12.40
1991-92	242,287	170,518	163,325	131,974	708,104	18,602	9.30
1990-91	236,542	161,859	149,347	123,982	671,730	15,279	8.79
1989-90	178,112	155,860	151,640	128,254	613,866	10,563	5.91

(1) Includes ungraded elementary enrollment.
(2) Includes ungraded secondary enrollment.
(3) The high school dropout totals for Academic Year (AY) 1993-94 is based on a nine month school year. However, the total for AY 1992-1993 is based on dropouts in a twelve month period, and the totals for AY 1989-90, 1990-91, and 1991-92 are also based on a twelve month period, less the number of students who re-enroll in September.
(4) Percent of total high school enrollment (Grades 9-12).

Source: Arizona Department of Education

STATE OF ARIZONA
AVERAGE STATE PRISON ADULT INMATE POPULATION
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 1999

Incarceration Institution	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90
Florence Complex	7,794	8,145	7,693	7,205	6,988	6,083	5,275	4,628	3,996	4,044
Lewis Complex	978	-	-	-	-	-	-	-	-	-
Perryville Complex	2,653	2,403	2,581	2,432	2,375	2,342	2,237	2,198	2,146	1,400
Phoenix Complex	1,256	1,804	1,275	1,407	1,331	1,267	1,176	1,051	916	704
Tucson Complex	4,016	4,071	3,966	3,677	3,483	2,888	2,692	2,455	2,370	2,095
Douglas Complex	2,183	2,214	1,944	2,214	2,053	2,064	1,987	1,962	1,940	1,518
Winslow Complex	1,635	1,671	1,736	1,741	1,522	1,353	1,290	1,295	1,179	650
Safford Complex	1,778	1,804	1,979	1,749	1,493	1,476	1,395	1,143	1,122	887
Yuma Complex	2,226	1,328	764	303	297	264	241	238	243	250
Other	240	-	-	-	-	-	-	-	-	-
Private Prisons	1,410	444	445	-	-	-	-	-	-	-
Total	26,169	23,884	22,383	20,728	19,542	17,737	16,293	14,970	13,912	11,548
Repeat Offenders Admitted	N/A	N/A	2,581	2,248	2,271	2,090	1,825	1,692	1,614	1,456

Note: Prior year amounts have been restated to present new classifications of complexes.
Source: Arizona Department of Corrections

STATE OF ARIZONA
PUBLIC HIGHER EDUCATION INSTITUTIONS'
FULL-TIME EQUIVALENT FALL ENROLLMENT
FOR THE LAST TEN YEARS

Institution	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Universities:										
Arizona State University	50,624	49,707	43,105	40,910	39,552	39,147	37,985	36,949	35,799	36,039
Northern Arizona University	19,981	19,940	19,618	17,193	17,592	16,875	16,387	16,377	15,987	15,006
University of Arizona	34,326	34,327	33,737	29,724	31,042	31,314	31,381	30,888	31,140	31,507
Total	104,931	103,974	96,460	87,827	88,186	87,336	85,753	84,214	82,926	82,552
Community Colleges:										
Cochise County	2,173	2,453	2,419	2,267	2,270	2,529	2,591	2,625	2,775	2,577
Coconino County	1,454	1,308	1,364	1,485	1,387	1,295	1,114	948	-	-
Graham County	2,762	2,623	2,300	2,279	2,235	2,094	2,196	2,387	2,168	2,107
Maricopa County	41,104	39,435	37,265	37,064	35,903	35,762	35,907	36,667	37,115	35,039
Mohave County	1,876	1,788	1,671	1,805	1,731	1,708	1,732	1,667	1,553	1,458
Navajo County	1,444	1,624	1,711	1,744	1,723	1,741	1,747	1,597	1,792	1,796
Pima County	13,281	13,061	12,898	12,526	13,080	13,128	13,416	13,939	13,424	12,862
Pinal County	2,213	2,011	2,032	2,071	2,138	2,042	2,154	2,284	2,191	2,081
Yavapai County	2,343	2,322	2,348	2,254	2,382	2,258	2,260	2,262	2,135	2,478
Yuma County	2,889	2,773	2,762	2,759	2,708	2,691	2,580	2,442	2,267	2,133
Total	71,539	69,398	66,770	66,254	65,557	65,248	65,697	66,818	65,420	62,531
Total All Institutions	176,470	173,372	163,230	154,081	153,743	152,584	151,450	151,032	148,346	145,083

Sources: Arizona Board of Regents
State Board of Directors for Community Colleges

STATE OF ARIZONA

RECONCILIATION OF ANNUAL FINANCIAL REPORT
FUND BALANCE TO CASH BASIS FUND BALANCE

GENERAL FUND

AT JUNE 30, 1999 AND JUNE 30, 1998

(Expressed in Thousands)

	1999 FUND BALANCE AMOUNTS	1998 FUND BALANCE AMOUNTS
General Fund - General Operations (Annual Financial Report)	$ 255,744	$ 523,026
Federal Grants	57,636	89,511
Other Appropriated Funds	252,737	22,780
Non-Appropriated Funds	426,801	311,815
Tax Collection Funds	(11,307)	(10,198)
Plus (Less):		
Continuing Appropriatons Contained in "GAAP" Cash Basis General Fund-General Operations	41,861	53,948
Annual Financial Report Amount Not Contained in "GAAP" Cash Basis General Fund	-	(8,934)
Amount in "GAAP" Cash Basis General Fund Not Contained in Annual Financial Report	269	-
GAAP Cash Basis General Fund	$ 1,023,741	$ 981,948

ACKNOWLEDGMENTS

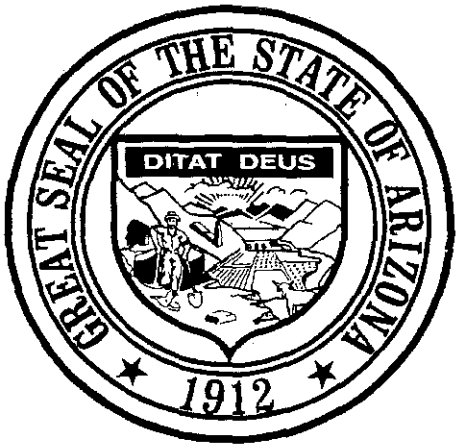
The Comprehensive Annual Financial Report was prepared by the Department of Administration, Division of Finance, Financial Reporting Section:

Keith Orr, CPA, CGFM
Lawrence Celano
Evan Chang
Joe Clements
Lisa Larned, CPA
Raymond Mauk
Blanca Sanchez
Ron Santa Cruz
Doug Yeskey, CPA, CGFM

Special acknowledgment goes to:

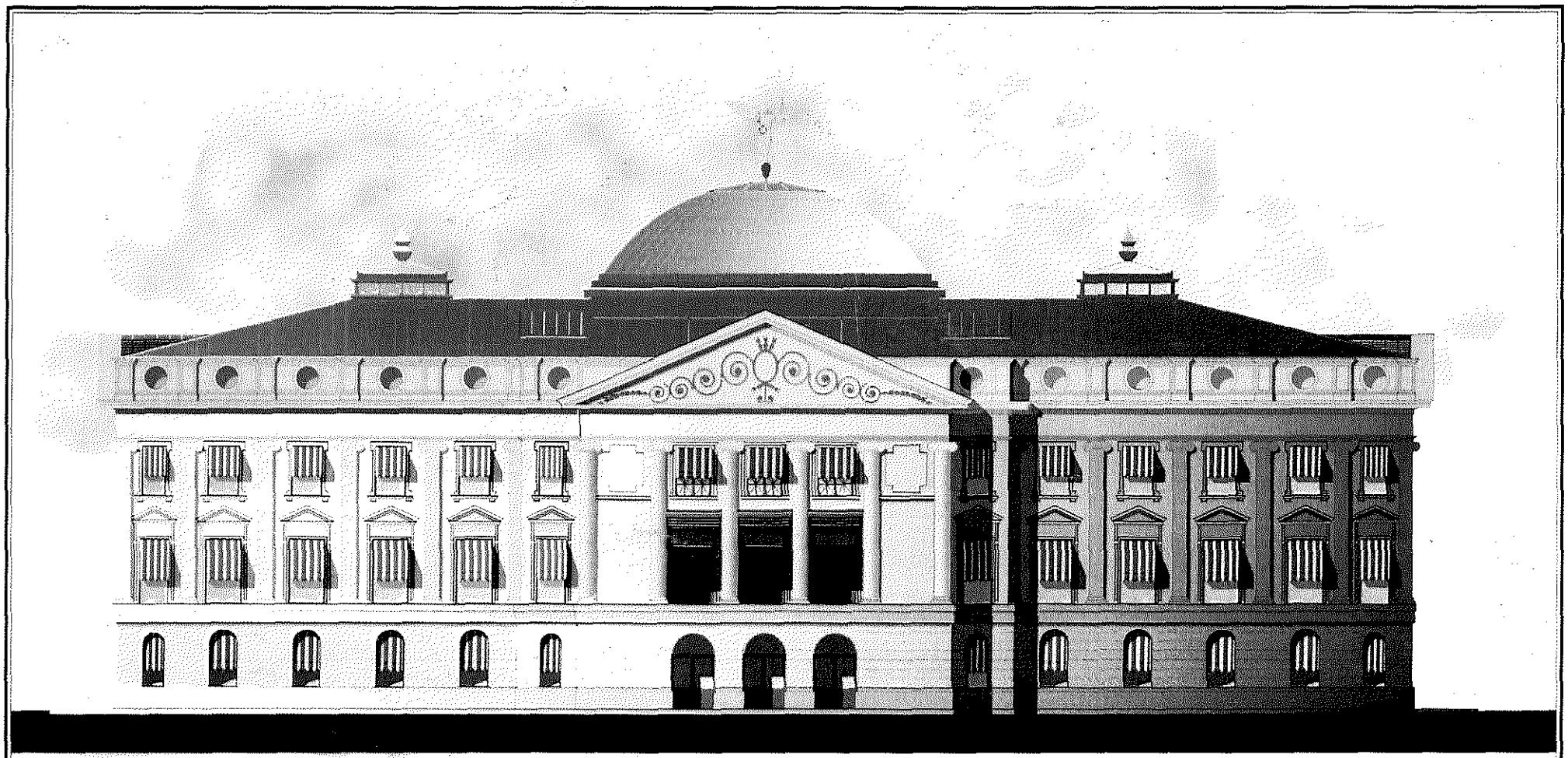
All fiscal and accounting personnel throughout the Arizona State government, along with the Office of the Auditor General staff, whose dedicated efforts and cooperation contributed to the compilation of financial information that appears in the report.

The Arizona Department of Library, Archives and Public Records, Museum Division for the use of the photographs and descriptions of the Arizona State Capitol.



Back Cover Photo

TRK Architect's rendering of work in progress to prepare the Arizona Capitol building for the centennial of its dedication in 2001. This view shows the original color of exterior metal work and canvass awnings that were installed over windows for most of the first fifty years after the building was constructed. Work on this rehabilitation project began in July 1998 and is expected to be completed for the centennial of the building in January of 2001. The project is expected to cost $4,700,000 and will include roof and dome repairs, increased electrical service, new lighting, air conditioning, fire sprinklers, improved security and associated plaster, paint and wood repairs.



CAPITOL CENTENNIAL PROJECT

TRK
ARCHITECTURE & FACILITIES
MANAGEMENT, INC.